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MANAGEMENT

JANUARY 1959
VOLUME 24 No. 1

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T. E. Clemmons

Practical Guides For Executive Compensation
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Decentralization—How Much And When? A Panel Discussion with:
Dause L. Bibby, Ernest Dale, and V. H. Viot

Wanted—A Science Of Management Organization
Louis A. Allen

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Balanced Emphasis

THE active member of the Society for Advancement of Management has a special opportunity for personal advancement in business, government, or the profession in which he makes his livelihood. The Society has recently recognized that one of its fundamental objectives is the furtherance of self-improvement. It pursues this objective by providing guidance and encouragement to the individual member in his growth and development toward competency as a professional manager.

This special competency which the Society stimulates is manifest in the *balance of emphasis* which the well-rounded practitioner of management science applies to management problems. The age of specialization in which we live creates a strong requirement for men who can provide this balanced emphasis. The tentative conclusions derived solely from the application of the methodology of a single field of specialization must be balanced with a knowledge or appreciation of the requirements of all other segments of the business. The validation of the first tentative conclusions—or their alteration and re-statement—must be based upon a full understanding of the whole picture. This produces programs for action which top management can "buy" without tortured re-writing and re-study.

Thus, by exposure to the broad spectrum of management subjects Society members become better equipped to exert balanced judgement on important issues. A roll call of the subjects covered in a single issue of *Advanced Management*, or the topics of a single conference, will illustrate the scope of the Society's penetration, both in depth and in breadth, to the most important subjects for study facing business leaders today.

The Society for Advancement of Management is a strong force in the competitive economy of today in assisting its members in bringing well balanced judgements to the job at hand. We might well ask ourselves whether we are making the best use of the wide variety of information and stimuli we are thus receiving. The balanced synthesizing of these concepts to which we are exposed in S.A.M will produce the payout for which we strive when we devote our time and energies to Chapter, Regional and National activities.

Hugo W. Druehl
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and
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Develop Tomorrow's Executives Now —Avoid Managerial Obsolescence

by T. E. Clemmons
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International Business Machines Corporation
New York

A GREAT DEAL is being said and written these days on the subject of executive development and many questions are being raised in this field: 1) Why do we hear so much about executive development all of a sudden? 2)Is executive development a passing fad? 3) Why are we interested in developing executives? 4) Why is there a shortage of capable executives in many organizations? and 5) Why doesn't the "Abraham Lincoln method" of developing leaders turn out a sufficient number of executives at all levels?

It seems to me that the conditions which have focused our attention on the development and utilization of our executives fall under two main categories: 1) The changing needs of the corporation, including coping with more complex management problems, 2) The supply and expectations of available and potential executives.

Executive teamwork and the organization to facilitate it is not a problem in a small organization where one man sets all of the policies and makes all of the major decisions while the rest of the organization carries these policies out. Here we do not experience conflicting interests, viewpoints, and personalities around the policy table.

But, when we think of executive requirements today we do not think in terms of one-man organizations. Fifty years ago there was one industrial corporation in America with assets of more than one-half billion dollars; today there are sixty-seven. Fifty years ago there were three firms of over one-quarter billion dollars in assets; today there are 162. If we consider large corporations as falling within these brackets, we are talking about an increase of 5,000% in the number of large industrial firms in the last fifty years for today we have twenty-four industrial firms with over one-billion dollars of assets. If we turn to the departments of the Federal Government, to the utilities, and to many state and local governments, we see the same type of picture emerging. If we talk in terms of firms employing more than 10,000 employees, we are speaking of more than 260 firms and approximately 25% of our total employment. It is interesting to note in passing that several of our largest U. S. corporations have a greater employment than the U. S. Army had during the peace years prior to World War II. Yet, our Army had found it necessary to maintain an officer training school since the year of 1802.

While these comparisons in themselves are striking, we must also realize that this growth did not occur in a straight line. There was a tremendous slow-down during the depression years of the '30's. During the war years we operated largely under a controlled rather than a competitive economy, with the result that we had a pent-up demand for goods and services and likewise a pent-up demand for executives to produce and distribute these goods which manifested itself largely in the last thirteen years.

It is one thing to manage a large organization which retains its size. It is another thing to manage an organization which is bursting at the seams with rapid growth. The job takes on an entirely new dimension when such a company is experiencing and, in fact, creating technological change at such a rate that its products, its skills, and its structure are rapidly being obsoleted.

Thus we see that in relatively few years we have developed in this country a great many large-scale businesses which, like large-scale government, have become highly departmentalized and specialized. It is possible for large numbers of capable men to spend years in a specialized area and become respon-

MR. CLEMMONS joined the IBM Sales Department in 1927 in New York after graduating from the University of North Carolina. After completion of Sales School he held assignments as a salesman in Atlanta, and Manager at Chattanooga and Atlanta. Later he served as an IBM Sales Instructor in Endicott for two years, as Assistant to the Vice President in Washington for one year, and as Manager of the New Orleans office for six years. In 1952 Mr. Clemmons again returned to Atlanta, this time as Manager of District No. 5. Early in 1955 Mr. Clemmons was named Sales Manager of Data Processing. In August of 1956 he was promoted to Director of the IBM Executive Development Department.

sible manufacturing men, personnel men, or engineering men without developing a clear, over-all sense of the purpose of the business or a clear picture of the relationship between their functions and other functions of the business.

I believe the viewpoints of many highly specialized executives who are not directly subject to the discipline of the various forces (economic, Governmental, and social) that are brought to bear on the entrepreneur in a capitalistic society can be well illustrated by an incident that occurred in our IBM Executive Development Program.

In our Executive Development Program we are using a plan in which the executives participate in the operation of a business in a competitive environment with the economy simulated on a computer. This has been adopted from a program developed by Frank Ricciardi and his associates at AMA. The executives become intensely involved in the day's activity during which they participate in decisions of a normal fifteen or twenty quarters of operating a business. At the end of one of these sessions, a key man in our engineering organization who had concentrated his funds and attention on manufacturing and engineering to the exclusion of marketing said, "I would like to make a confession. This is the first time in my life that I have ever felt that the sales department earned its salary."

This point of view was admirably pictured by Professor Toynbee in his address at the Fiftieth Anniversary Conference of the Harvard Business School in September, 1958, when he pointed out that the word "business" is losing its original association with "enterprise and profit" and is coming to be associated in our minds, more and more, with the very different notion of "administration and organization;" that more and more business executives are adopting the viewpoint of the civil servant whose duty is not to get desirable results but to follow the correct procedure.

Thus on one hand we find a tremendous increase in the size, the scope, and the far-reaching influence of our major corporations, crying for a sufficient number of broad-gauged executives who are not only able to see a business in its entirety with all of its functions in their proper perspectives, but also to see this business in its relation to the total economic and social environment. On the other hand we find the majority of our brilliant young men subjected to highly specialized training and experience, designed to produce administrators and bureaucrats rather than broad-gauged executives.

Today we would normally be staffing our senior executive positions with men who had received their early business training in the depression years, and our junior executive positions with men who had received their early business training during the early '40's. It may be well to remind ourselves that the men who received their early business training in the lower echelons during the early '40's were subjected for the first time in this country to wholesale training programs of the JIT, JMT, and JRT varieties. These men came to see the value of this type of training for lower management positions and have felt that the proper types of educational programs could facilitate their progress at higher levels.

The other and larger group of men who are now in junior executive positions were, during this period, in the Armed Services and had received intensive training for specialized jobs—in Officers Candidate Schools, in various colleges and universities throughout the country. They saw organizations welded together and leaders developed through intensive educational programs. The demand on the part of these young men for information and for educational experiences which will facilitate their progress and diminish the likelihood of failure in higher positions is, I observe, much greater than the desire of our senior officers to inaugurate such programs.

And so it would appear that if we are to bridge the gap between the need for broad-gauged executives on the one hand and the type of experience which on the other hand is producing specialists, we must supplement the highly specialized experience of our promising young executives with a *planned* executive development program.

Up to this point I believe it is fair to assume that most of us are in reasonably complete agreement on some of the general conditions which exist and in fairly general agreement on the need for doing something about it. But what?

It is not surprising that there are a great many different opinions when you can count all of the top-level executive development programs in industry on your fingers and can count most of the executive development programs in colleges on your fingers and toes. When you further realize that this limited number of programs has existed only from a few months to a few years, you can readily see why there is a great temptation to generalize from one or two experiences.

We have had a few experiences in IBM. We have drawn a few tentative conclusions and these are described below:

It must be understood that we were attempting to develop a program to meet the needs of the IBM Corporation at this particular time. Other organizations will be different from ours in many respects, and my comments are to be considered simply as ideas to be tested and re-evaluated for validity under other company conditions. I feel equally sure that our conditions will change in the coming years and I trust we shall be flexible enough to adapt our program to these changing conditions.

Let me illustrate this tendency to generalize as to pedagogical methods from one experience. During the early days of planning for our program for junior executives we were giving serious consideration to the use of case studies in a substantial part of our course. One of our sales managers had attended a college program which does an outstanding job with the case method approach. He had been so enthusiastic that he had invited one of this college's most effective professors to hold a short school built around the case method for a group of his executives.

I later spent some time with this professor who told me that he was never so frustrated in an attempt to teach a group of men by the case method. They were young, brilliant, alert, but he found them all taking one viewpoint (which he considered the company viewpoint) and he was forced to play the devil's advocate throughout the program.

Our first tendency was to generalize on the basis of this one experience. That the case study method would not work on an in-company program. Fortunately, we did not give up at this point. We looked a little deeper. These men were not only from one company, they were from one division of one company. Further, they were from one functional area of one division, and further, they were all at exactly one level in this function. Specifically, they were all district managers in the sales department of the Data Processing Division.

What we have actually found in practice is that if we bring together a man who manufactures typewriters in Lexington, Kentucky, and a District Manager from Houston, Texas, a Project Manager from the Research Lab. in San Jose, California, a Controller from a manufacturing plant in Rochester, Minnesota, a personnel man from the computer plant in Poughkeepsie, a man from Product Planning in Endicott, New York, a manager of service from our European Organization, a Sales Manager from Canada, and a man from the Corporate Staff in New York City, we not only get a wide difference of opinion but we also observe an intensity of feelings on subjects that is seldom developed between members of different firms.

HAVING DULY warned you, I shall proceed to share conclusions and to generalize from a very limited experience. I believe the simplest way to give you the benefit of our experiences is to trace quickly the steps which we went through when we considered establishing a formal Executive Development Program.

First we backed off and took a good look at what we had in IBM as of 1956. In summary, this is about the picture:

1. An organization of approximately 50,000 people.
2. An organization that was strongly sales oriented.
3. A highly technical organization.
4. An organization in which formal education had become a way of life. For example, by the end of 1957 we had approximately 60,000 employees and approximately 55,000 of these had participated in some type of company training program during the year. In addition to this we had furnished instructions to approximately 100,000 customers.
5. A company that was in the process of reorganizing its structure from a centralized functional organization to a decentralized divisional type of operation.
6. A billion dollar company that just prior to World War II had been doing only $50,000,000 worth of business. Since there had been little hiring of men with executive potential during the war years and since we expect to draw most of our top executives from men with at least ten years in the business, we find that we are attempting to fill executive positions for a billion dollar business from men who were hired to staff a business of approximately $50,000,000.
7. We found that through the years the people we had employed represented a very high educational level, twenty-two percent of our total population being college graduates and thirty-nine percent having taken some college work. We tabulated all of our college graduates in the business by division and by year of hire and plotted a chart which indicated the years of experience of each of these groups of men. All of these studies said rather clearly that we would be in short supply for top executives for the next five years.

Our next approach was to take a look at what was being done to develop this potential. We found that while formal education and training had played a very important part in developing a strong sales and service organization, its use had been extremely limited in development of executives.

We also found that existing college programs would not be able to accommodate the number of people that we thought would need to have more advanced formal education in the next five years.

In view of these conditions, we planned to send sixteen of our top 100 executives each year to college programs and established our own executive school to accommodate approximately 100 of our junior executives per year.

FURTHERMORE, it did not look as though our junior executive group would furnish all of the top executives we would need during the next five years, so we dropped down the line to the younger men with an average age of thirty and built an Administrative Training Program. This is a one-year combination job experience and formal training program for a limited number, approximately thirty young men per year.

Our first step in developing our Executive Development Program was to set up our own permanent staff. One of these men was drawn from an executive development program of another corporation. Another was drawn from college and adult educational experience. The remaining four men were drawn from different areas of our own business. This group was responsible for all materials, for the organization of the course, for the securing and scheduling of outside speakers, and for teaching approximately one-third of the program —mostly the basic material and the leading of cases.

APPROXIMATELY one-third of the program was taught by outside authorities. These men were secured from such schools as Carnegie Tech., Columbia, Cornell, Harvard, MIT, Princeton, Syracuse, Yale, and others.

One-third of the course was handled by executives in our own organization, such as, our Treasurer for financial functions, our Controller in the area of Controls, our Director of Personnel covered personnel policies, our Director of Organization on organization planning, and our Secretary and Legal Counsel spoke on Governmental Regulations, etc.

Our approach on a typical subject, such as finance, is to have the basic issues raised and discussed by our permanent staff, together with certain financial cases. This is followed by a discussion of our "Monetary and Federal Reserve System" by an outside authority, followed by a discussion of the "Budget of the United States and its Impact on Business and the Economy" by another outside professor. This is followed by "Financing in the IBM Corporation" by the IBM Treasurer.

We have found this approach effective. In the work with our own staff the participants are forced to dig into the problem; the sessions with outside authorities force the consideration of broad issues outside our Company; and the sessions with our own executives furnish specific answers as to why we have taken a particular approach to a particular problem.

In determining the length and size of the program we were faced on one hand with the desire of the staff for a long, comprehensive program, and on the other hand with pressure from the operating people to have these men away from their jobs and families for as short a period as practical. We also were faced with a desire to keep the classes small so that we could become intimately acquainted with the participants, and at the same time to give as many people as possible the benefit of the program at an early date.

We settled on a class of twelve men and a program four weeks duration

which has worked out quite satisfactorily. However, we may well consider reasonable changes in size or length as conditions change. It may be well to note in passing, that we have operated for the first year in rented facilities which gave us considerable leeway for experimentation as to our real requirements. We are now developing permanent facilities for this program.

Based on one year's operating experience with this program, we have learned a few lessons and reached by a few tentative conclusions: First it is possible to conduct an effective educational program for executives in a company such as ours. It is possible to have a large number of executives partake of such a program within a few years. We thus hope to avoid sending a junior executive back into an organization where new ideas and approaches that he may have acquired will seem strange, and thus be met with cold shoulders. It is also possible, if you are properly located, to bring to such a program some of the best educational talent in this country, and we believe that both industry and colleges have benefited by such an arrangement.

We have learned that such a program is not cheap. For example, one must start from a base of the salaries paid to the executive students. If you have twelve executives in a class as we do, and if you assume an average salary of $2,000 per month, you are starting with a $24,000 per month base. If living expenses, travel, permanent staff, outside guests, etc. are added, you will probably be running $50,000 per month.

WE HAVE FOUND it more expensive to put an executive through our own school than to send him to an outside program of comparable length. However, we also believe that when you are paying students' salaries, it is very unwise to reduce the effectiveness of the program in order to save a few thousand dollars. I would much prefer to reduce the student body by two than to reduce the faculty by two, and the financial "savings" would be about the same in either case.

It has been our experience that the men are anxious to attend such a program. I believe it is safe to state that of the 108 men who have passed through the program thus far, more than 100 have been enthusiastic about the benefits they have received.

Is such a program worthwhile? We believe it is.

We in IBM spend about twenty-five times as much money on other educational programs as on executive development programs. Many of these programs have been in effect for more than twenty-five years, but we still do not know how to measure then accurately. We believe (judged by accomplishment) that we have one of the finest sales organizations in the world and we are convinced that the formal sales training, initiated over thirty years ago, has been a major contributing factor to this quality of effort.

We feel the same about our Service Organization.

When we analyze an equal amout of money spent in basic and product research, we can prove that the money we spent in the late '30's and '40's has been paying good dividends. We know no way, however, of proving that the money we are spending in 1958 will pay equally good dividends.

Twenty-five years ago, in the middle of the depression, when we built our first educational building and our first engineering laboratory, I was discussing some of our educational programs with one of our senior vice presidents. He said, at that time, "There are some things we just know are right and we go ahead and do them."

I seriously doubt that short-range measurements on the value of an educational program are much more accurate today than they were twenty-five years ago, but we are convinced that we are on the right track and are proceeding accordingly.

If I were to make one suggestion to those of you who are considering such a program in your own organization, it would be that you study carefully your own organization, take into consideration the future plans and needs of your specific business; the experiences, the education, and the expectations of your people; the opportunities that exist in your company for varied experiences; the resources which can be assembled within your company for formal educational programs and also consider the various programs that are already available for executives outside the company.

Most outside programs can be tailored to fit the average executive or the typical executive. Your internal program must be tailored to fit your particular company. You cannot afford to bring together groups of intelligent, and I assure you, critical young executives in a company program unless all phases of that program are adapted to your company. Every member of your staff and every executive appearing before the group must be prepared to face keen, penetrating questions and to level with the participants at all times. It is also essential that your program be designed and conducted in such a manner that the expectations raised on the part of the participants are in keeping with the plans and opportunities which exist in your company.

Volumes can be and have been written on this subject of executive development. In this brief period I have tried to highlight these few points:

a. *There is a tremendous need* on the part of American corporations for well-trained, broad-gauged executives, and this need is rapidly increasing.

b. *There is a genuine demand* on the part of young executives for the kind of education that will help them discharge their present obligations with greater ease and efficiency and prepare them for greater responsibilities.

c. Every corporation is different, in its size; in its scope; in its history; in its demands; in its opportunities; and in its people, both in their backgrounds and in their expectations. An executive development program copied from another company or a university program would probably fit as well as a suit lifted from a rack of clothing.

d. You can well afford to do a custom job on your program, since the cost of the program actually includes the salaries of the students as well as the budgeted overhead.

I have attempted to share with you some of our thinking in setting up the program in our own company and some of the things that we have learned in one year of operation.

The evermore complicating factors involved in managing the corporation of today and tomorrow are forcing on business the necessity to provide for the continuous growth of able and skillful executives. This we must encourage and implement if our capitalistic system is to survive and prosper. None of us have proven techniques, and we certainly do not have 1975 answers today.

We can, however, by taking full advantage of the approaches, techniques and facilities that do exist, move forward courageously in our attempts to maximize the most precious of all our assets—*EXECUTIVE ABILITY*. ■

Practical Guides For Executive Compensation

by N. B. Winstanley, Jr.

Manager, Compensation & Benefits
International Telephone & Telegraph Corp.
New York

A speech given before the S.A.M Annual Fall Conference, in New York City, October 31, 1958

AFTER making an initial draft of this paper I looked around for some published material on this topic which I could recommend to you. I was surprised to find that most of it had been written by outsiders—specialists not in the full-time employment of companies. It occurred to me then that perhaps a simplified *Do It Yourself* approach, confined to the basic tasks involved in developing a company "package" for executive financial compensation, would be helpful. With this in mind, I have developed this paper along those lines.

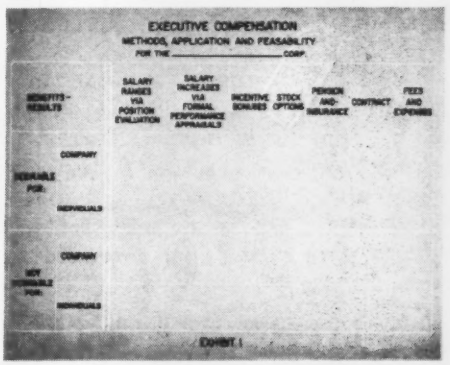
I am aware that I am slighting certain areas. However, I have done so due to time limitation and with the purpose of calling to your attention certain major points which I feel get too little attention.

DEVELOPING THE PACKAGE

This simplified approach has been divided into seven steps:

Step No. 1—Appointing a Responsible Executive. Assuming that the Board of Directors and/or top management have recognized the need for a study of executive compensation, the first step in this project is to appoint an executive to carry it out. I think all will agree that he should have considerable respect and status within the company. In turn, this man should have the authority to appoint three or four others to assist him in formulating the details of the project. I suggest that one of these men ought to have had some experience in wage and salary administration. This is the individual who will act as the technician and who will actually carry out many of the details planned by the committee. Each of the other men should have a comprehensive knowledge of the organization, objectives, and operations of the company. If the study is to be taken seriously and made properly, these men must be relieved from most of their present assignments. A company-wide announcement to this effect should be made, as part of the mandatory announcement of the study itself.

Step No. 2—Preparation. Before anything else is done these men will have to prepare themselves. This means they will have to find out what concepts and administrative techniques are involved and how other companies have used



them. Basically, they will find that their study will concentrate on these major areas of compensation: a) salaries, b) bonuses, c) retirement plans, and d) stock options.

However, their preparation should proceed by gathering information with which to assess the relative benefits and desirability of all of the various means of compensating executives. Each topic can be assigned to a committee member who will be responsible for developing the required information. When completed, this exercise should point the way to more detailed development designed to satisfy the needs of the situation. (Exhibit 1).

Regardless of what methods are presently employed or how successful they are, all of these topics should be pursued because of their inter-relationships and with the hope that improvements can be made on any existing program.

Of all means of executive compensation, salary is usually the most im-

MR. WINSTANLEY left the American Management Association, where he was consultant and specialist in management compensation, to join ITT. He had earlier served with Vectron, Inc., of Waltham, Mass., as Personnel Director. A native of Boston, Mr. Winstanley graduated from the University of Massachusetts, later attended Purdue University, where he received his Master of Science and Doctor of Philosophy degrees. He is a Lecturer on Management in the Evening School of Business Administration, Fordham University, New York City, and is a member of the American Society for Personnel Administration.

portant because in most companies it is the major portion of any executive's total compensation. Many companies fail to realize this and get involved in all sorts of "gimmicks," some of which take a Philadelphia lawyer to understand and a magician to administer. Another hair-raiser is the fact that many extra compensation plans base their awards, in whole or in part, on present salaries established through individual bargaining and other random considerations. Of course, if the internal relationships between salaries are out of line with responsibility, application of these plans may further distort the total compensation structure. Almost inevitably this results in problems. It is for this reason that some companies are forced into the planned approach such as we are discussing here today.

THE COMPANY committee, prior to undertaking development of a systematic program, will do well to read carefully the following material: First, for an over-all look at the subject, "*The Executive Function and Its Compensation.*" This is a study prepared in 1957 at the University of Virginia for the General Dynamics Corporation. Perhaps a quotation from it is pertinent here: "*A salary system that is flexible, has carefully drawn differentials, is adjusted periodically, and is well administered, can produce most of the beneficial results commonly credited to other systems of payment.*" Second, for greater detail they should review "*Workshop on Executive Compensation,*" published in 1958 by the Bureau of Business Management, University of Illinois. They should also read a series of collected articles titled: "*Motivating Executives*" by Arch Patton of McKinsey & Co., Inc. Finally—and this is a must—they should carefully study: "*Reports on Methods of Compensating Executives,*" by AMA's Executive Compensation Service. (These are the studies I have found most helpful.) There are, of course, other excellent sources such as the publications of the N.I.C.B.

When the committee has finished its study, they will have found that no one means of compensation should be installed without tying in the others. In other words, salaries, bonuses, stock options, etc., should be in package form so that annual total compensation is related to performance and responsibility.

Step No. 3—Revising or Developing a Salary Structure. Since salaries are so important, systematic position evaluation is obviously indicated. Question: What technique should be used to establish equitable salary ranges? It seems to me that, after studying the various evaluation methods used, the committee would be left with a choice of two methods and would probably want to choose the particular position evaluation technique largely on the basis of the number of executive positions involved. If the number is small—say, well under 50—then simply ranking the positions in order of importance to the company will give good results. If the number of executive positions is 40 or 50 or more, then use of a factor comparison method may be better. At ITT we used the classic factor comparison method because we went down to the second and third echelon of domestic divisions and evaluated some 200-odd positions. Incidentally, we are finding that by-products arising out of our staff study will be just as beneficial to the corporation as the resulting salary structure itself.

Regardless of what technique is used, whether it be those I have mentioned or some other such as the point method, the final evaluations must be placed into salary grades or ranges. This commonly means the committee must develop some outside criteria of the value of these positions. In other words, they must conduct a salary survey of key positions in their company that are comparable to positions in other companies. This is really tricky.

I would suggest concentrating on the average *total* compensation of chief executives and top functional executives of similar sized (sales, capital invested and capital employed) companies, *not* necessarily in the same industry. I say total compensation because if the company does not have a bonus plan or some other means of extra compensation they will probably want to be competitive with the average of those that do and do not, and have their company salaries reasonably comparable to the market. Just how comparable will probably depend on profitability, growth and Board action. If the company does have a bonus plan they will probably want to back off from the total compensation figures derived from the survey by an amount which will reflect the historical and anticipated yield from their bonus and other extra compensation plans. This will give salary rates which are pretty much in line with average salaries in all other companies. In surveying the compensation of executives, I believe the committee will find that the variability of salaries is greater than the variability of total compensation. Therefore, it is felt that starting with the more reliable figure and adjusting it by the company needs and situation will result in a better measure of the value of the position and make any future recommendations for adjustments far more meaningful to the Board and far more defensible if stockholders should question it.

Salary data for this survey is available from proxy statements on file at the Stock Exchange Library. However, since proxy statements give limited information, another readily available source with rather extensive and detailed information is the "*Top Management Report—8th Edition*" of AMA's Executive Compensation Service. Short of personally going out to other companies and comparing positions and compensation, I have found this annual publication to be the most useful means of establishing the worth of positions.

When all this data has been collected and market values have been derived, a structure of salary ranges must be developed. Assuming the committee wants to be right on the market, they will have to develop a series of salary ranges that places each position in a salary grade which 1) reflects the internal ranking of the position, 2) will allow the company to attract and retain executives, and 3) allow individual executives to progress from the minimum to the maximum on the basis of performance.

TO DO THIS they will have to establish a series of successive ranges with approximately 15 per cent difference between minimums and a 50 per cent spread from minimum to maximum in any one grade.

When this is done—and if there is to be no bonus plan—a final extremely important task remains; and it is at this point, unfortunately, that many executives unskilled in these matters fail. A salary program *without* careful provision for administration and maintenance will be virtually useless in most companies in two years. Procedures must be developed which will keep abreast of changes in executives, the content of positions and with changes in the market. As a matter of fact, it is almost axiomatic that in any large, dynamic or growth company the content and evaluation of several positions will already be out of line by the time the committee

has installed the program. If the company wants optimum benefits from its compensation program, compensation policies will also have to be developed to handle day to day situations with respect to increases, hiring rates, transfers, and other normal personnel actions. It may be said, and it has been said, that this is going too far for executives; but since they are human beings they, too, can be quite upset when a salary review is forgotten or when a new executive is hired for a position of the same or lesser responsibility at a rate that is in excess of theirs. I'm sure you've all seen this happen—perhaps even to yourself.

Step No. 4—Revising or Developing a Bonus Plan. Since only half the publicly owned companies in the U. S. have bonus or supplemental pay plans for their executives it is safe to say that there is considerable difference of opinion about their effectiveness in providing rewards and incentives. These differences are centered on the principle involved and the methods used to distribute bonuses. It seems to me that both of these ought to be investigated by the committee. I believe they will find that one benefit to be derived by management and the stockholders is to have on hand and operating a tool which will allow total compensation of executives to rise and fall with the profitability of the company, thus avoiding an excessively high level of fixed compensation in lean years. This is as it should be under a properly administered program. For any successful program must hinge on *administration* and not in any formula establishing the total of the bonus fund itself. I think the committee should be forewarned against spending all of their time deciding whether the fund should be based on profits before or after taxes, what deduction should be made and what percent is to be used. The function of the Committee at this point is simply to present a recommendation, with alternatives, to the Board. The decision is for the Board to make. The development of the *method* of distribution, however, is properly the responsibility of management. In developing recommendations as to method, the Committee will inevitably have to give consideration to deferred payments and to payments in cash and stock. Now, some of the experts in this field have suggested that the method of distribution be tailored to the needs of each one of the participants in the plan. In a major corporation with many participants this would mean a separate plan for each executive. This is ideal, but is it practical? I doubt it. It could lead to quite an administrative burden and a lot of misunderstanding. I think that what the Committee ought to do is, by all means, talk to other executives and then put together a method that would be best for the group as a whole.

MORE IMPORTANT to the ultimate success of the plan is making certain that individual bonuses reflect the degree of responsibility and individual performance—for how else can they achieve the primary objectives of reward and incentive to improve corporate profitability. Developing a means of doing this is extremely difficult. In addition to position evaluation, it requires a very careful definition of elegibility and the identification of performance criteria for each of the positions covered. The latter, by the way, is also necessary and useful in organizational planning and management development as well as in salary reviews.

Before any recommendations are made to the Board and to the stockholders, the committee should make a complete "dry-run" of the proposed method to see a) how well it works, and b) how many would have received bonuses in specified amounts.

In carrying out this exercise, and in future administration of the plan, the committee will have to make certain that any awards are in *effective* amounts. Don't you agree that annual bonuses of $1,000 or $2,000 to a top-notch $30,000 executive in a successful company is hardly likely to have much long range impact, especially after taxes? True, such a bonus does provide recognition, but since recognition wears off quickly in the face of the daily economic and social needs of the executive, managements would do well to make recognition a secondary objective.

In order to develop a truly effective incentive, much more thought must be given to the magnitude of the bonus, its relationship to base salary and to the total of these two. It is entirely possible, and indeed it happens, that the total of a large annual bonus plus a very low salary can fall well under the market for executive talent. Over a period of time, such a situation could result in the loss of key people. On the other hand, fair salaries with token bonuses (especially those that are automatic) do little more than create an added administrative burden.

In my opinion those companies with evaluated and equitable salary structures are in an excellent position to get the most out of a bonus plan, provided the bonus awards are noticeable. To be noticeable—that is, effective insofar as they enable the recipients to make certain desired minimum changes in their personal life—a bonus should *at least* approximate the amounts shown in Exhibit 2. These bonus figures, of course, assume the existence of equitable base salaries. Awards in excess of those shown are not necessarily excessive, but they would be subject to some sort of a law of diminishing returns to the company.

EFFECTIVE BONUSES BY SALARY LEVEL *

CURRENT SALARY	EFFECTIVE BONUS
$ 10,000	$ 1,380
15,000	2,190
20,000	3,000
25,000	3,980
30,000	5,100
35,000	6,290
40,000	7,530
45,000	8,840
50,000	10,000
60,000	12,100
70,000	14,660
80,000	17,910
90,000	21,220
100,000	24,070

* SOURCE: "SCIENCE, SALARIES, BONUSES AND TAXES" AN UNPUBLISHED STUDY BY E. R. BAKER OF THE CHRYSLER CORPORATION AND N. B. WINSTANLEY OF ITT.

EXHIBIT 2

If these figures are used as minimums, they may in some companies restrict participation but they will tend to prevent management from spreading the bonus fund too thin. The total fund available will also operate to restrict participation. The practical result of this is to concentrate awards in effective amounts in the most responsible levels of management. If the committee develops recommendations along the lines of equitable salaries and noticeable bonuses I believe they will have increased the incentive value of the plan and therefore have acted in the best interests of all concerned—the stockholders, the Board, and the management.

NOW LET'S STOP for a moment and see where this committee is. You will recall that I have touched on the need for integration of salaries and bonuses. Obviously, from the point of view of overall expense to the company, the total of these two means of compensation must have certain limits. I suggest that these limits be set by salary grade, over and above the salary maximums, so the average total compensation of company positions approximates the average total compensation of positions in other companies. From a practical point of view, this will allow the company to recruit new executives at a reasonably competi-

tive salary rate and still reward them with extra compensation for outstanding performance. Costs to the company cannot be excessive when compared to other companies if such a program is well developed and administered. Furthermore, whatever the cost is, it is now better related to company and individual performance.

In establishing these limits of total compensation, the committee must take into account the total bonus fund available, probable number of participants, the notion of effective bonus, and the levels of responsibility involved. In doing so they will probably find, depending on the number and levels of those eligible for bonuses, that the dollar difference between the salary maximum and the limit for total compensation will decrease as they go down to each successively lower salary grade.

This is pretty complicated, isn't it? So let's examine this proposition graphically in Exhibit 3. You will note that a compensation structure like this ties bonuses into salaries and, at the same time, places the company in a competitive position. Aggregate or total compensation (salaries, bonuses and fees) for positions in this company should

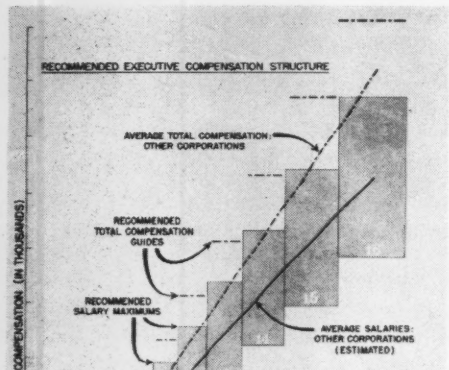


EXHIBIT 3

rarely exceed the "Total Compensation Guides" for salary grades; few salaries should be less than the grade minimum.

Step No. 5—Revising or Developing a Restricted Stock Option Plan. A third means of compensation, restricted stock options, can also be tied to an evaluated salary structure such as we have just discussed. For example, when the question of how many shares to grant in option to a particular executive aries, it seems to me that an immediate guide is provided by position evaluation, i.e., degree of responsibility of the position of the executive concerned. If the committee were to establish guideposts along these lines, it would in large measure assure distribution of the total shares along reasonable and acceptable lines. In other words, those who are most able, by virtue of their duties, to increase the value of the stock receive the greatest number of shares. Furthermore, there is just no sense in granting options beyond the income level of the recipient. I believe these are important and practical considerations, particularly where there are many eligible executives and a limited number of shares.

FURTHER integration, with tax benefits for both the individual and the company, has been achieved by tying stock options into the bonus plan and having a single plan which would make payments in cash, stock and stock options. This is how it works: If the basic award was $20,000, it would be distributed as follows: $10,000 cash, $5,000 in stock, and $5,000 stock option credit.

This credit is translated into units representing shares of company stock. Thus, if the current price per share is $20, the executive is credited with 250 units. He is granted stock options at this price for twice the number of units, or 500 shares. This unit account is later reduced by one-half unit for each share acquired under the options. If the options are not exercised, the executive receives his 250 shares at the end of the option period.

Complicated, isn't it? Is it practical? I don't know. The committee should examine this method though. I'd say an important consideration for them would be the stockholders—that is, how active they were, how much they exercised their control, and their understanding of the principles and methods involved. Because the suggested plan is complicated it could conceivably breed suspicion.

Thus far in talking about stock options little has been said about the principal involved, i.e. does a restricted stock-option plan operate to the mutual benefit of all concerned? On balance it appears that such a plan involves less risk and a higher probability of benefits for the company than for the individual executive. The company can retain that part of its working capital that may have been spent on higher salaries and bonuses and still recruit top flight executives who will give maximum effort to increasing the value of the stock. The individual executive, on the other hand, must make a judgment on the potential growth of this company and then work like the devil to make his dreams come true. However, factors beyond his control could intervene and make his options worthless.

One frustrating situation that can arise to make a plan worthless, aside from a falling price, is the inability of the executive to raise enough money to exercise all of his option. This happens, you know. If so, wouldn't it be wise for management to keep this in mind and to talk it over with one of their banks with a view toward giving their indirect approval of any future arrangements that might be made between individual executives and the bank? This, to me, is good follow-up.

Step No. 6—Revising or Developing a Program for Income After Retirement. Part of the total compensation picture for both the company and the individual executive is the commitment of dollars now or in the future to build up a fund for payment after retirement. To many executives, this means of compensation is extremely important coming as it does in the years when they are in a lower tax bracket and when, presumably, they can well use it. This income is commonly provided through some sort of a company-wide salaried pension plan. Because it is company-wide it often does not adequately reflect the natural desire of the older and higher-income executives to defer some of their present compensation for payment after retirement. In view of this, some companies have found it mutually advantageous to place certain of their key executives under employment contracts (with deferred compensation clauses) for present services and for consulting services after normal retirement date.

WHILE THE committee in its review of such a practice might conclude that it is quite practical, counsel will have to point out to them that some risk is involved and that the Internal Revenue Department could, unless certain conditions are met, find the money immediately taxable or disallow it as a business expense.

In Memoriam

It is with deep regret that we announce the death, on December 4, 1958, of Harold V. Coes, a Past President and Life Member of the S.A.M.

Mr. Coes was a member of the New York S.A.M Chapter. He was also an ASME Past President, a Past Vice President of AMA, and Director of the National Management Council.

This is also true of bonus plans which spread payments out and over into retirement. Long-deferred bonus payments, however, are not popular with the younger executives.

It seems to me then that one of the key considerations for the committee is the average age of the executive group and the number of executives close to or over age 60. With an older group, income after retirement can be much more important than liberal salaries and bonuses at present. It is important, however, that the needs of these older executives not be unduly weighted in developing compensation plans. These plans must be balanced between the cash needs of younger men and the estate needs of older men.

Step No. 7—Follow-Up. Follow-up is the final step of this *Do-It Yourself* approach. Briefly, this will involve, on the part of the committee, periodic reviews of the methods and results from the package they developed. Questions of adequacy will arise at this step. For example, were enough shares of stock allocated to the stock-option plan? If not, how many more are necessary and what are the problems attendant upon to a second request?

BEFORE CLOSING, let me make a few final comments. First, it must be obvious by now that there are some highly technical legal and tax considerations involved here. In view of this, I'm sure that no committee would want to act without legal counsel on these matters. Second, and perhaps this comes under the heading of "Man does not live by bread alone," please do not lose sight of the fact that executive compensation is both financial and *non-financial*. I rather suspect that undue emphasis on the financial aspects of compensation has weakened certain otherwise fine programs. Executive perquisites, promotional opportunities, and indeed even titles can be equally important.

Conclusion. Summing up, then, my point is this: In developing their compensation plans, companies must take a systematic and all-inclusive approach if they want optimum benefits. No single means of compensation will achieve them. Each must be considered in relation to the others and to the results as a whole. Therefore, integration of separate means is a must. But integration without superior administration does little for the company. And superior administration takes careful preparation and periodic follow-ups. ■

A Philosophy For Leaders Of Men

by Guy B. Arthur, Jr.

President, Guy Arthur Associates

Toccoa, Georgia

FOR ALL THE supervisor or leadership development programs, we have done little to change the behavior of management personnel toward their fellow men. Thousands of employees have expressed this opinion after their bosses have sat through development programs of one kind or another.

At the same time, the supervisors themselves have expressed the opinion that most of these development programs have been a waste of time, old stuff, and not very helpful insofar as their daily problems are concerned. Why? I have been asking myself and others this question for over ten years. I am now convinced that we have failed to build management and supervisory development upon a sound foundation.

Management (at all levels) must have the right attitude toward their fellow men or the principles of leading people will not be followed, regardless of how well known these principles may be. Even more basic is the fact that our attitudes toward other people stem from what we believe. Which raises the most important question, "What do you believe?"

Here are certain firm beliefs I have which may serve as a basis for others to use in the development of their own philosophy:

1. I believe every human being is an important individual because man is the only form of life to be given intelligence and a conscience. Man (all men and women) is expected to do more than merely reproduce and exist as is true of other forms of life. Each human being is here for a purpose. For these reasons, every individual is important. I believe every human being is different from all others. God made us that way.
   a. *Because of this belief, I will study to understand myself and other people. I will refrain from trying to change people to fit my pattern, but instead will encourage individuality. I will give recognition to the individual at every opportunity.*
2. I believe that every human being is fearful and that all people make mistakes. No one is perfect. No one person knows everything nor the answers to all questions.
   a. *Because of this belief, I will do all possible to allay the fears of those with whom I associate. Since facts will do more than all else to dispel feelings of insecurity and other fears, I will present facts in advance of any action which might create fear. I will make allowances for the behavior of other people, as God does for me, and be tolerant of them. I will give people all the facts and knowledge with which to avoid* mistakes. I will be quick to ask forgiveness of God and any person wronged by my *words or deeds. I will try to keep myself in good physical, mental, and emotional condition so as to avoid saying or doing anything to hurt anyone.*
3. I believe that every human being was given certain abilities which he (or she) must develop to serve God's purpose and to attain full satisfaction from life. Abilities, like muscles, will wither away from want of use. Most of us need help to develop our abilities,
   a. *Because of this belief, I will do all possible to develop my God given abilities. These include my leadership ability. I will learn to listen, to encourage, to help, to teach, and to develop those who look to me for leadership. In this way, I will help all with whom I come in contact to develop their abilities. I will be sure that those who report to me know how they stand so they will be neither overconfident nor underconfident.*
4. I believe that every human being needs the love of other people. The love and approval of other people is as important to the well being of an individual as is the food he eats or the rest he gets. People will do more to win approval than they will for money.
   a. *Because of this belief, I will love all my fellow-men. I will be sincere, courteous, friendly, compassionate, patient, cheerful, and consistent. I will keep in mind that I am no better than the rest of God's children, and that all I have is a gift of God. I will help those who are less fortunate and those in trouble, without looking for reward. I will not countenance subordinates who disrupt the spirit of my work force. I will treat every human being as I would like to be treated if our positions were reversed.*
5. I believe that every human being should be free to speak, learn, choose, work, and worship as he (or she) pleases. No man should violate the freedom of another person.
   a. *Because of this belief, I will help all people to be free. Free to say what they really think without being afraid. Free to study what they are interested in learning. Free to choose who they want to associate with. Free to choose what they want to buy or sell and for how much. Free to work wherever they can sell their services. Free to worship where and how they please. Free from fear and want.*
6. I believe that every human being should have faith in God, in our Country, and in his fellow men. That with the help of God, we can solve the complex problems connected with our work providing we forget our own selfish desires and look for answers which are best for all concerned. That we, who are so fortunate as to live in the United States, have the best and strongest country in the world because of our belief in God and in Freedom. That most people are honest beings who want to be respected by their fellow men.
   a. *Because of this belief, I will set a good example. I will not use the Lord's name in vain nor place the desire for goods or power ahead of God. I will let it be known that I look to God for help and that I have faith in him. To those who seek my advice and counsel, I will explain how God can help them solve their problems. I will defend the principles of freedom upon which our Country was founded at every opportunity. I will try to bring understanding of these principles to all I come in contact with who are not believers in freedom for all. I will keep in mind that most human beings are honest and good. I will follow the Golden Rule in all dealings with my fellow men.*

Possibly you can use some of these thoughts as a basis for developing your own personal philosophy. Keep in mind the words of Clarence Francis "If we have made any progress . . . it is due to that starting point . . . having the courage to lay policy (our philosophy) on the line and, granted its many imperfections, to try to live up to it."

May God Guide You.

A Panel Discussion

Held at the S.A.M Annual Fall Conference in New York City on October 30-31, 1958.

Decentralization—How Much And When?

Panelists:

Dause L. Bibby, Executive Vice President
Daystrom, Inc.,
New York

V. H. Viot, Vice President, Employee Relations
Crucible Steel Company of America
Pittsburgh

Ernest Dale, Associate Professor
Graduate School of Business
Cornell University

OUTLINE OF THE DISCUSSION
by Dause L. Bibby

I. DEFINE DECENTRALIZATION:

A. Webster says—"To deprive of centralization, especially to divide and distribute what has been centralized, united, or concentrated." It's another one of the "catchy" words we in management use today. Therefore, it has become an abused or misused term.

B. Several misconceptions:
1. That decentralization is a form of organization.
2. That decentralization simply means the physical separation of plants or facilities—confusing decentralization with dispersal.
3. That decentralization means the delegation of great deal of authority to lower echelons and nothing else.

C. The facts are that decentralization is present to some degree in nearly every organization structure—

When we depart from a single manager business, we get degrees of decentralization.

Example: delegation of authority to the heads of functional areas. The degree of decentralization changes as the company grows and changes.

D. What is meant by decentralization?
1. Decentralization refers to the *systematic effort to delegate* to the lowest appropriate levels all authority except that which can best be exercised at a central point.
2. Neither decentralization nor centralization is *absolute* — The extent to which decentralization exists in any organization depends on the extent to which clear cut decision-making authority is vested in levels below the headquarter's top management.

E. Perhaps divisionalization is a better word. As Louis Allen points out, there are really only two basic kinds of corporate organization:

FUNCTIONAL DIVISIONALIZED

F. So for our purposes, let's define decentralization as follows:

"When the organization is broken down into independent administrative units and authority and responsibility for several functional areas (engineering, manufacturing, sales, accounting, and personnel relations) are vested in an individual, we call that organization a decentralized one."

Further, that these so-called independent administrative units are usually set up on a product base or a geographic base.

Product example—IBM
Geographic example—Simmons

II. Now, let us examine some of the circumstances that bring about decentralization:

A. Mere growth and size may make decentralization necessary:
1. The organization may become cumbersome.
2. Good direction is difficult.
3. Flexibility is lacking.
4. Top executives become surrounded by assistants and committees.

B. The characteristics of the company's *products* or *markets* may make decentralization desirable:

Can provide a special emphasis on a product line or concentrated attention to a particular market.

C. *Physical separation* of plants or facilities may call for some decentralized decision-making.

D. Technological developments may create the necessity for specific delegation of authority and responsibility.

E. If a company is diversified in products or processes, specialized knowledge in each dissimilar operating unit may make decentralization mandatory.

MR. BIBBY joined IBM in 1934, at the Dallas office. In 1937 he was sent to Birmingham as Manager of Electric Accounting Machines. He was promoted to Assistant to the Vice President in Endicott, N. Y. in 1941. He became General Manager of IBM Plant No. 2 in 1943. From 1944 until 1946 Mr. Bibby served as a special officer to the Army's Chief of Bureau of Supplies and Accounts. After discharge from the service he returned to Poughkeepsie, as Gen. Mgr. In 1949 he was made V. P. of IBM. He resigned to join Daystrom, Inc., in Jan. 1956. Mr. Bibby is National 1st V. P. of S.A.M.

(It is interesting to note that an NICB study in 1956 indicated that 78 out of 80 corporations studied were either on a decentralized basis or had decided to adopt this kind of organization structure.)

III. I am a great believer in decentralization when the circumstances dictate or permit such a move. However, "It's easier said than done." Here are some implications of a decision to decentralize:

A. No plan of change involving decentralization can succeed unless the chief executive and his top staff manage to take themselves substantially out of current operations and begin to focus increasingly on policy formulation, long-range planning, and devising proper measurements of performance.

B. There are several *musts* for successful decentralization:

1. The *specific nature* of the decentralizing move must be *clearly stated*. What is being decentralized?
2. The *specific responsibilities* of the persons to whom decision-making authority is being given *must be* carefully *stated*.
3. *Objectives* must be *established*.
4. *Standards* for measuring performance must be *determined*.
5. Appropriate *central controls* are needed.
6. Communication is essential.
7. *Working relationships* with other parts of the organization must be understood.
8. *Central coordination* must be provided.

C. The broad principles and outlines of the decentralization plan *should be announced* to the company as a whole:

1. *Essential work* should be *clearly defined* and assigned to various parts of the company.
2. Gaps in the organization structure should be *filled* with *qualified personnel.*

D. *Key individuals* and groups affected should have an opportunity to *work out the details* of the decentralization program:

1. Participation makes future implementation easier.
2. Decentralization has to be a tailor-made job. Each part must be measured and fitted so that the finished product will be a coordinated whole with no bulges or wrinkles.

IV. A few important "don'ts":

A. Don't assume that decentralization is a substitute for good management.

B. Don't assume that because you are decentralized, acquisition can be integrated with no trouble.

C. Don't assume that decentralization allows you to ignore the criteria for establishing an independent administrative unit—i.e. sufficient size, adequate profit margins, nonconflicting marketing problems with other units, etc.

D. Don't assume it is a cure for overdiversity.

E. Finally, while one of the most important benefits of decentralization is the development of future executives, don't start with your first unit unless you have a qualified general manager to head it up.

V. Let us now look at the *benefits* we can get from decentralization: Let's take the classic group first that our Chairman's (Donald Webb—G.E.) good company has stated so clearly:

A. To place decision-making authority, responsibility and accountability as near as possible to the place where the action takes place. Or said another way—to pinpoint responsibility — For a product line or an area.

B. To permit the corporation to move quicker and with more flexibility in meeting competition.

C. To provide a better means of developing future managers and executives—To quote Peter Drucker:

> ". . . the technological revolution of "Automation," already under way, primarily requires a tremendous increase in the number of trained and educated managers. And it is already true today that the short supply of such people is *THE MAJOR LIMITING FACTOR* on the rapid growth of our economy and of our principal industries."

D. Allows the company's top management to concentrate on their primary job of policy formulation, long-range planning, and the devising of proper measurements of performance. ■

DECENTRALIZATION—HOW MUCH AND WHEN?

by Van H. Viot

S.A.M should be complimented on their title for this panel discussion. There is an unfortunate tendency in various articles and textbooks to list this subject as "Decentralization versus Centralization". This indicates that it is either white or black, that there is no gray area involved. This is not so. Whether you have a decentralized or centralized organization depends upon the particular company, the particular circumstances, your special business climate. Many companies combine both organization concepts.

My role this afternoon might be characterized in some quarters as that of the Devil's Advocate since I represent the advantages of centralization and the disadvantages of decentralization. I enjoy this role because I believe that in the process of decentralization, we have gone down some rather peculiar roads —strange roads — and we made some wrong turns. I intend to discuss some of this wrong routing here.

Decentralization seems to be quite the fashion now. However, it is similar to another recent style — the sack dress; both require close scrutiny, and while it is a fashion, it is not a new one.

As long as thirty years ago, Sir Charles Harris wrote an article entitled

"Decentralization" in the *Journal of Public Administration*. He obviously was going through the usual throes of soul-searching when he said, "*For years the conviction grew upon me that a larger measure of active control from the center would conduce to both efficiency and economy of administration; and today, if I were to confine my view to particular details and to immediate results, I should still feel on that point no possible doubt whatever. It is when one falls back to Brown's view-point, and tries to see the wood as well as the trees, that the certainty disappears.*" I do not know how long a time before Harris the argument waxed hot and heavy.

I READ a bit on this subject in preparation for this discussion, and I found that it can get awfully complicated. You run across such phrases as "*relegation of functional coordination to the lowest possible level*" or "*delegation of responsibility on the levels above the functional split*". I suppose I could be accused of taking these phrases out of context in the Devil's behalf.

Well, be that as it may, you can also run across a great deal of stuff which tries to draw a very fine distinction between delegation and decentralization. This kind of material seems over-complicated to me. But perhaps since I have worked in both types of organizations, I have a tendency to over-simplify the subject. So, rather than deal in these high-sounding but to a large extent meaningless phrases, I say: "You should decentralize if you have too much work for one person to do". And if that is not over-simplification, I have never heard it!

But seriously, if one person of high calibre can easily do the work and correctly make the decisions required, why decentralize? Why put these decisions in the hands of less capable people, thereby taking the risk of harm coming to the corporate enterprise?

So, let's assume that we only come to the question of decentralization when the enterprise begins to expand and develop beyond the limits of one executive. When you have reached this point, you don't say "*There is too much work for one executive to handle successfully, therefore we decentralize*". Decentralize what? You don't decentralize all functions, at least I don't think you do. Each function is examined by itself. You decide whether or not that function can be handled more successfully and more profitably in a decentralized manner. For example, Doctor Dale has said, "*The finance function is almost always a responsibility that is retained by the central management. Control of the purse strings remains the most important control of the supreme coordinating authority over the divisions in the substantively decentralized corporation*". Neither do you decentralize the responsibility for long-range corporate planning. The establishment of the long-range corporate objectives certainly cannot very handily be decentralized. Neither can the creation of company-wide policies and control procedures be delegated.

Just as you examine the particular function to see whether or not it should be decentralized, you also determine the type of organizational structure which will be most favorable to your corporation. Is this decentralization to be on a functional basis such as selling, manufacturing, etc.? Will it be on a geographical basis? Or, should it be on a product basis, each of the units being responsible for its own buying, manufacturing, selling, and so on?

MR. VIOT was elected Vice President of Employee Relations at Crucible Steel Company in February 1956. Prior to his association with Crucible he was Manager of Industrial Relations for the Koppers Company, Inc. He began his business career as a staff attorney with the Industrial Council of Kansas City, Missouri. Mr. Viot was graduated from the University of Missouri witth an A.B. degree and from the University of Michigan with a Bachelor of Laws degree. He has also completed the Advanced Management Program at Harvard University.

Equally important as the type of organization to be used in decentralization is the assessment of the problems which will be encountered in a decentralized organization. What will be the impact of these problems upon the health of the corporate enterprise?

There are, of course, many such problems. Some of them are so critical that they must be anticipated and solved before they threaten the success of the business. We can assume that the corporations which have recentralized some of the functions have done so in order to survive. The companies in this category would, I suppose, be the ones that threaten the viability of the corporation by over-delegation and over-decentralization to the point of near-abdication of management responsibility. Or, it could be that management responsibility has been delegated to people who are not *willing* to accept such responsibility or who are *unable* to accept it. It is more likely that decentralization took place without a statement of an over-all corporate policy which made clear the necessary controls to assure the success of the enterprise.

IT SEEMS to me that Peter Drucker has stated very well and succinctly this aspect of the problem when he said, "*You can't decentralize without very much better control of performance, very much better control of objectives, than most businesses have ever heard of. Decentralization means that you set up a unit autonomously in such a manner that it operates against standards, objectives and goals rather than against supervision. The major problem is a control problem, which very few businesses either understand or have the controls for.*"

On the importance of controls, *Dun's Review and Modern Industry* had an excellent article. It was entitled *Why Top Management Control Needs Tightening*. From it I quote: "*Effective top management control no longer means restraint on middle management's freedom of action. It is coming to mean the speed and effectiveness by which trouble spots are detected before serious harm is done*".

The article further observes that while decentralization may relieve top management of many details of daily operations, decentralization itself can be a trap unless management develops very sensitive controls to coordinate divisions and to learn quickly where and when trouble spots are festering. The authors conclude that automatic data processing is a virtual necessity for a company which is considerably diversified. If proper controls are not installed and utilized, the burden on the top executive is really increased because he is now called upon to coordinate many activities which formerly he himself might have done more easily. Such coordination is extremely time-consuming and can be very wearing. This is particularly true when the coordination involves functional specialists who have

a great deal of difficulty seeing the whole picture of the corporation. They tend to hold views which advance just their particular function. The chief executive officer, for the good of the order, must reconcile these views which sometimes seem irreconcilable.

YOU WONDER sometimes just how much decentralization has accomplished when you see corporations, after a period of decentralized activity, begin to reorganize. Now understand that this is not re-centralization, this is *re-organization of a decentralized system*—that, I hope is clear to everyone. It is startling to find during this so-called reorganization, a build-up of an extensive central staff system which will duplicate the staff systems already maintained in the decentralized units. Or, the position of executive vice president is created to supervise the line people in day-to-day operation while the president supervises the staff groups and does the long-range corporate planning. Another interesting development in some large decentralized corporations is the establishment of group vice presidents. They either supervise a group of functions or a group of divisions. These group vice presidents, of course, supervise and coordinate the activities for the chief executive officer. In some companies there is a special staff activity called a "control section", which does for the chief executive just exactly what the name implies. The chief executive officer is able to control these divisionalized units through this staff section.

Again I say that you just can't help but wonder how much is *really* accomplished through a so-called decentralized organization when a very top-heavy staff system has to be created in the general headquarters in order to make the decentralized operation work successfully.

No discussion of this subject should omit the personnel aspect. It can be vital to the success of the decentralization process. As we know, decentralization permits the individual down the line more freedom, more latitude, more opportunity to develop his abilities and accomplish more for the corporation; it also permits him to build an empire for himself. Decentralization permits the individual further down the line to make decisions more quickly; however, it sometimes puts the decision in the hands *or in the heads* of people with much less ability than the top man in general headquarters. But we are told this individual freedom advances the objectives of the corporation. However, he may not agree with the objectives of the corporation or, which is more likely the case, may not thoroughly understand them. Consequently, his actions cannot be counted upon to advance corporate objectives. This can be very costly. Of course, this is only to say that successful decentralization requires a large number of capable people properly motivated and completely indoctrinated in corporate policies and procedures and sympathetic to the corporate objectives.

At this point, I can't resist quoting from W. Cameron Caswell's article "Taking Stock of Divisionalization" in the July 1958 *Journal of Business*. I quote: *"Divisionalization seems to be working in a number of cases. It seems to be increasing in frequency and the methods by which it is accomplished are continually improving. Whether or not it is always wise, it is probably a permanent step in most cases. Having made the change, the corporation is often prevented by its pride, if nothing else, from returning to a single functional type of alignment."* And note this: *"Furthermore, the divisional enterprise will be vociferously defended by the large number of executives who have achieved greater autonomy. Thus, it is impossible to pass final judgment on the big business device of divisionalization"*.

It is emphasized frequently that decentralization develops many individuals into managers for the corporation. It is seldom stressed that the development of individuals in the general office is also a necessity. Personnel in the general office must not only understand the principles of decentralization but—most important—be completely sympathetic to that type of organization if the decentralization process is to work successfully. A completely favorable climate must be established.

I think John Corson of McKinsey & Company has put this problem very nicely. He says that to build a truly decentralized organization that succeeds by getting initiative, imagination, self-discipline and loyalty out of people, the executive must demonstrate four important personal attributes:

1. He must be receptive to other people's ideas; he must have a minimum of the NIH factor (not invented here) in his makeup; he must be able not only to welcome the ideas of others but to plant his own ideas in the minds of others and to compliment them on their ingenuity.
2. He must be sufficiently placid to see others make mistakes and to charge the cost as an eminently worthwhile investment in the development of his most valuable resource—people.
3. He must be willing to forego the luxury of blowing his top, of berating his assistant. To delegate authority requires that the boss limit his criticism of the individual who tries but fails; to criticize is to discourage the individual's willingness to try again, to make use of the authority delegated to him.
4. He must be able, if he knows much about the detail of the business (as he probably does), to exercise great powers of self-restraint. He must be content with exercising broad controls over results and refrain from telling the sales manager how to sell or the comptroller how to keep accounts, no matter how expert he may have been in either field.

While it has been good fun to act as the Devil's advocate in this discussion, I do think I appreciate the definite advantages of decentralization in many, many situations. In my own organization, we have decentralized certain activities. As a matter of fact, we have divisionalized certain activities which we thought could be spun off profitably. We have proceeded slowly, making sure the necessary policy and controls were in existence and thoroughly understood by those concerned. ■

SOME NEW PERSPECTIVES ON DECENTRALIZATION

by Ernest Dale

The proper balance between centralizing and decentralizing decisions has played a principal role in the rise and fall of the empires. Over-decentralization—that is, grant of autonomy too far down the hierarchy — was one of the causes of Rome's decline and fall. So it was in the virtual bankruptcy of General Motors under W. C. Durant in 1920. Over-centralization was a principal

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cause in Britain's loss of America. (Though even with formal decentralization George III could probably have held on to his overseas possessions only if he had had a transatlantic telephone!) Henry Ford was practically bankrupt through over-centralization by the end of World War II. It was the absence of timely change in the balance between centralization and decentralization which was a cause of the fall of these great organizations.

Therefore, at this time of rapid changes in population, technology and personal values, we are grateful to S.A.M for providing an opportunity of reviewing the state of the debate and charting some of its future course. As a point of departure, it may be appropriate to recall the findings of a world-wide conference on the subject. It took place just five years ago at the 40th anniversary of the School of Economics of Rotterdam in the Netherlands (H. J. Kruisinga, Editor, *The Balance Between Centralization and Decentralization in Managerial Control*, H. E. Stenfert, Kroese, N. V. Leiden, Holland, 1954). The participants included:

H. J. Kruisinga, Shell Oil; W. Vonk, Unilever; P. C. Breek, Philips; R. Gregoire, Chief, Organization of European Economic Corporation; Sir John Simpson, Director of Organization and Methods, H. M. Treasury, London; Dr. Gordon Lippit, National Training Laboratory Group; E. F. L. Brech of Urwick, Orr and Partners; Professors Ouwellen, Simons, Van der Schroeff and Dale.

INDUSTRY, as represented by three of the world's greatest manufacturing and trading companies—Unilever, Shell, Phillips — was in substantial agreement with the government representatives from U.S.A., Britain and France as well as with an international consortium of professors of economics and administration on the following conclusions about decentralization:

First, decentralization is a framework for the division of management. The process is one of delegation, the result decentralization.

Second, decentralization is a technique for overcoming the fixity of the scarcest of all factors of production, namely management. Only by increasing the supply of managerial talent is successful growth possible. Only by delegation can the geniuses or Caesars of management be replaced. And only by delegation can lack of knowledge and lack of physical proximity be overcome.

Third, the extent of delegation must be determined in industry on an economic basis, i.e. by weighing revenue and costs of various degrees of delegation against one another. (In government, service is the major criterion.) The process of delegation is greatly dependent on the proper application of human relations skills.

Finally, it was agreed that the proper balance should be determined on the basis of experience and its interchange between comparable business and institutions rather than on the basis of imagination and prejudice.

Now you may well ask: "What changes have there been in the state of the art of decentralization in the last five years? And what is the shape of some of the things to come?"

In the first place, the economic calculus has shifted the "balance" somewhat toward greater centralization. The principal cause of this shift was the sharp recession of recent months. Many companies found that the decentralization, involving increased responsibility and authority down the line, required increased staff. And the corporate prestige from decentralization could not offset the higher overhead in the drop of falling sales. The Rheem Company with its extensive geographical and functional decentralization was one of the first to run up heavy losses and quickly drew back. Next the automobile industry was hit. Chrysler maintained the name of its "divisionalization program," but cut heavily into its divisional staffs and its powers. Ford all but abandoned its separate divisions and one of its architects, Jim Nance, by amalgamating Mercury, Edsel and Lincoln into the M-E-L division. Marketing, one of the most enthusiastic decentralizers, forsook it widely, according to a recent *BUSINESS WEEK* report. Even some of the companies which have widely publicized decentralization policies faced recent executive resignation because they pulled back too far.

And there have been long-run economic changes which are leading to centralization. Costs of technology have risen so tremendously that research and service have to be furnished centrally for such things as missile production and space travel, atomic energy, automobile engines, the high quality production of coal. Institutional changes, too, are making for centralization. Thus, the increasing scope of government in so many activities has meant that relations with government have to be coordinated and met centrally in the business enterprise. The growing central and amalgamated power of labor unions has had a similar effect.

THIS REVERSAL toward centralization is perhaps in part due to our oscillating too violently between extremes, shifting too rapidly from decentralization to centralization, forgetting that any such profound organizational change—requiring so great a change in personal attitude and practice—is bound to take much time. Its success is, therefore, essentially one of the long-run; that is, requiring five to ten years rather than one or two. As F. W. Taylor observed it: "*The building of an efficient organization is necessarily slow and sometimes very exensive.*" (*Shop Management*, p. 62).

That decentralization is essentially a long-run phenomenon is amply documented by the experience of its great practitioners. Perhaps the American pioneers were the du Ponts and their executives, especially engineers Barksdale and Haskell. When General Henry du Pont was running the du Pont Company as a one-man show in the second half of the last century, the General's nephew, Lammot, quit the company and set up his own. In the famous superintendents' meetings Lammot du Pont, with Barksdale and Haskell, developed what we know today as the management

skills. Of those it was essentially decentralization which helped develop the management talent that rescued the du Pont Company from bankruptcy and sale when General Henry and his successors had succumbed to overwork. The practice of decentralization was worked out over the years by the du Ponts and formalized in two memoranda by Donaldson Brown, Haskell and Lammot du Pont. This influenced Alfred Sloan's decentralization memorandum at General Motors and the subsequent well-known formulation of "decentralization of operations and coordination of control." The success of this policy is well-known, but the fact that it took from 10 to 15 years to accomplish is seldom mentioned.

Nor has the actual process of decentralization ever been studied thoroughly enough to predict its consequences. One of the exceptions is the great decentralization of Westinghouse Electric Corporation from 1935-39. It probably was also the first successful reorganization from a highly centralized to a decentralized structure (du Pont and GM faced rather the reverse problem—that of the proper integration of a large number of separate acquisitions). The complete story of the Westinghouse decentralization will be published shortly by Cornell University, as studies by R. S. Weinberg, Manager of Market Research at IBM, and myself. We employed a new method of studying the effects of a major management change, utilizing not only interviews with the principal participants, but also a quantitative test of our hypothesis concerning the effects of a change from a centralized to a decentralized type of organization in a large corporation, backed up by a most complete set of data, indicating the course of the change on a month by month, cost by cost, plant by plant basis. Our thesis, based on qualitative studies of a number of similar reorganizations in large corporations, was as follows: The immediate impact of decentralization on profits is generally favorable because of its releasing morale effects; the short-run impact tends to be a reduction of profits because of a steep rise in administrative expenses relative to profits; the long-run impact tends to be favorable to profits.

THE FOLLOWING chart tests this hypothesis. It is based on the Westinghouse deviation from its long-run relationship to General Electric Company in terms of sales, various expenses and profits, charted over 30 years and extrapolated for the period under review. The chart shows the impact of the major change in management methods from 1935 to 1939, when Westinghouse changed from a centralized to a decentralized organization structure, and General Electric did not change its structure at that time. All other principal relationships remained constant. The Chart shows the extra profits and administrative expenses resulting for Westinghouse from its management change as compared to its normal relationship to G.E. The broken lines indicate *actual*, the unbroken lines extrapolation.

It is clear from the Chart that the initial impact of the Westinghouse reorganization was an extra profit from 1935-36 of about $1½ million over and above its normally expected relationship to G.E. It was a tremendous relief to plant managers not to have the red tape and consequent errors that checking with headquarters involved. The short-run period from 1936-38 shows a loss for Westinghouse of about $25 million. This resulted from the increase of staffs required by the delegation of responsibility and authority to the newly created "little Westinghouse companies." With the accountability still resting with the chief executive, A. W. Robertson, the work of budgeting and controls led to an increase in the accounting staff greater than the total staff *before* reorganization. Finally, there was a great deal of in-fighting to determine the distribution of responsibilities between headquarters and the field. Only in the long run—that is, starting in 1939—did the trend of rising profits outweigh the now declining administrative expenses. Individually pinpointed instead of diffused responsibility had finally been established (before the reorganization approximately three-quarters of all expenses were the responsibility of two or more executives.) For the first time Westinghouse successfully invaded GE's share of market. It was growing faster than any other billion-dollar corporation at that time. It was more "depres-

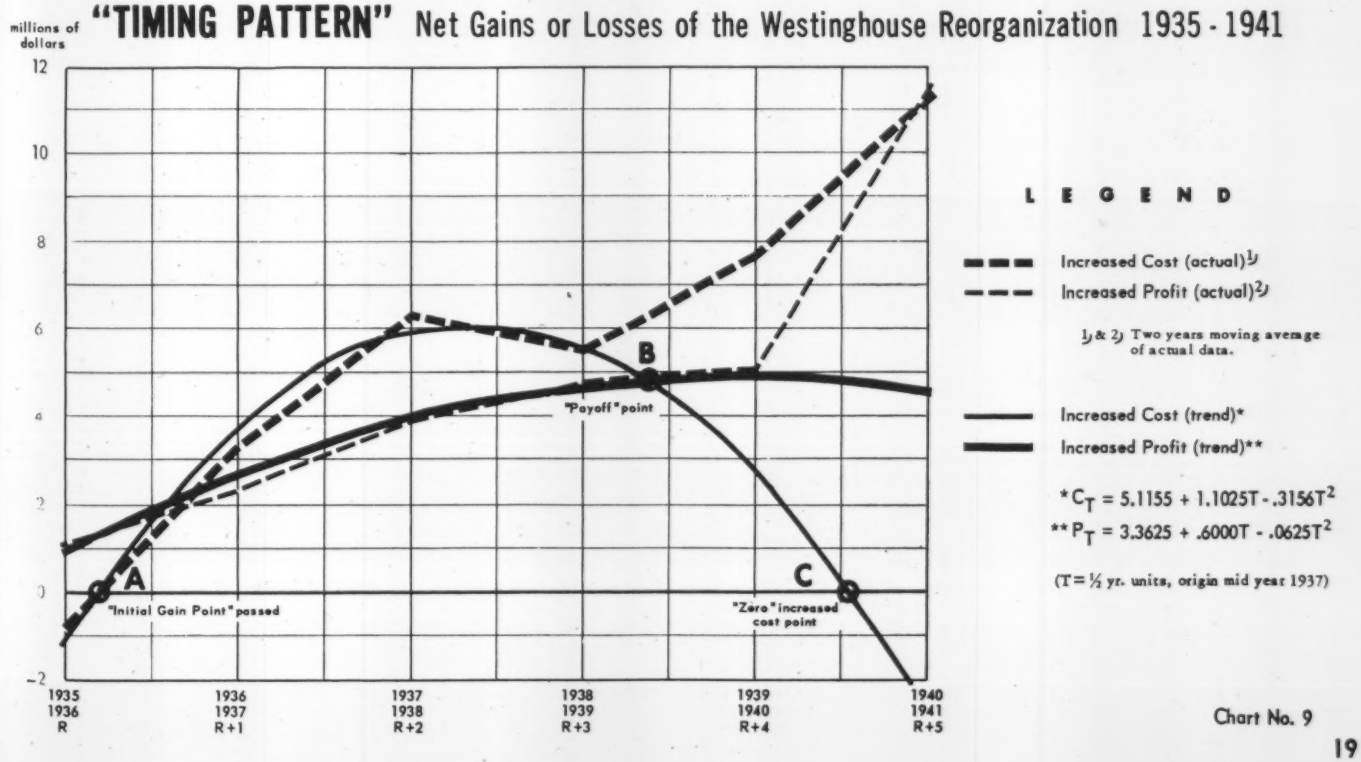


Chart No. 9

sion-proof" than its competitors. If we can verify these results elsewhere, we shall be able to predict the broad consequences of an organization change. Even if our data do not cover a long enough period, our methods of making such studies might be useful to others for purposes of analysis of the cases of success and failure as well as for prediction.

THE LONG-RUN success of some of our largest and best-run corporations with decentralization has made a contribution toward the solution of our economic problems. But ultimately their very success may deprive them of the reason for their existence. That is the conclusion of the current non-fiction best seller, Professor Galbraith's *Affluent Society*. It is a book which many businessmen may like as little as Holly Whyte's attack on the conformity of *The Organization Man*, or John Keruac's *Beat Generation*, or John Osborne's *Angry Young Men*. But like it or not, these books pose a serious moral problem to the managers of affluent corporations, if not to all.

It is the problem of the man who has little or no opportunity for self-realization in his company or his job, of the man who is unable to be what he wants to be. I do not here refer to the man who is looking for a father substitute in his boss, for the love he misses elsewhere; or the man who is trying to prove to his parents that he can be the engineer they wanted him to be, but he did not want to be in the first place, or who is trying to prove to be the failure his parents predicted he would be. I am speaking of the man who knows what he wants and who hates what he does, because his job is so Procrustean that his excessive abilities are chopped off or fenced in so that he is unable to contribute what he is able to. Or he has to work with a group that requires him to be faceless rather than fearless, that requires him to be an exemplifier of Parkinson's Law or one of the other similar useless characters running up the overhead and running down everyone else in the stiletto-pierced boxes of organization—rather than step occasionally on a few toes and stick his neck out.

Lest the growing number of affluent corporations should be tempted to use their surplus revenue to increase the powers and outlays of empire builders and omnipotent dictators, decentralization in its many forms is the best check on them. All those who are concerned with social and individual progress are opposed to an excessive concentration of power in the long run. Hence decentralization with its scope for individualism, meaningful responsibility and dispersion of power may be a partial answer to those managements who are able and willing to fulfill their moral obligations and adapt our free enterprise system to the changing needs of the times.

Whatever the results of these efforts, to all managements who sincerely try to give a moral basis to decentralization goes this inspiration from Theodore Roosevelt:

"It is not the critic who counts, not the man who points out how the strong man stumbled or where the doer of deeds could have done them better. The credit belongs to the man who is actually in the arena; whose face is marred by dust and sweat and blood; who strives valiantly; who errs and comes up short again and again; who knows the great enthusiasms, the great devotions and spends himself in a worthy cause; who at the best knows in the end the triumphs of high achievement; and who at the worst, if he fails, at least fails while daring greatly; so that his place shall never be with those cold and timid souls who know neither defeat nor victory." ■

CIPM Reports . . .

S.A.M is a charter member of the Council for International Progress in Management, the American non-profit, non-political organization devoted to the practice of scientific management on the international level. CIPM is in turn a member of the international Committee of Scientific Management (CIOS) which represents the organized management societies of twenty-six nations.

A REVIEW AND A PREVIEW

It has been some months since CIPM reported in Advanced Management, and the beginning of a new year would seem to be as good a time as any to review some of the highlights of the Council's past year's program and to mention briefly a few of its plans for 1959.

Leading the Council's activities in 1958 was the Second Inter-American Management Conference held in White Sulphur Springs in November. There, leaders of industry from North and South America met for a week to exchange ideas and experiences and to discuss some of the management problems common to both continents. One of the subjects that received much attention was "the fact that we are plunging into an age of rising expectations," as Under Secretary of State Herter stated in the keynote address of the conference. How, in an age marked also by increasingly rapid communications, should the growing economic, political and social demands of people in both industrialized and industrializing countries be met—was one of the central questions of the conference. Management's role in developing economies was discussed at length, resulting in a better understanding by Latin American managers of the steps to be taken in their countries' development and a knowledge on the part of North Americans of the kinds of needs existing in the Western Hemisphere.

NEW MANAGEMENT ASSOCIATIONS IN THIS HEMISPHERE

One of the proven successful means through which a nation strengthens and improves the skills of its managerial personnel is by establishing a management association. Such an organization not only acts as a catalyst by bringing together managers of a country—often for the first time—to exchange ideas in conferences and small seminars, but it also provides a continuing agency for the education and training of managerial personnel. In Colombia, a new management association is just beginning, and in Jamaica, under the impetus of the CIPM management program, one has already been inaugurated. Other countries of the Hemisphere are taking preliminary steps in the establishment of such organizations.

OTHER CIPM MANAGEMENT PROGRAMS

The summer of 1958 marked the third Advanced Management Program in Chile under which U.S. professors of management and businessmen conducted a condensed replica of American executive development programs for Chilean and other South American executives. This program is held under the joint auspices of the Council, the International Cooperation Administration, and the Council's Chilean counterpart, which is the focal point for all managerial development activities in Chile.

Other Council program of the past year have included management seminars in Spain and Japan and study programs in this country for groups from South America, the Frast East, from Yugoslavia, Germany, and most recently, from Belgium. Management teams from the latter country have come to the U.S. with the financial backing of Belgian industry and the Belgian Government, both of which have concluded that first-hand exposure to American management practices is so important a part in the development of Belgian managers that an extremely thorough and long-range program of management education has been set up, with study in the United States as an integral part of it.

FOR 1959 . . .

This year's Council activities will include a management program for Indian educators, businessmen, and government representatives arranged in conjunction with the Ford Foundation, as well as further management exchange programs between the U.S. and other countries of the world, including, perhaps, the U.S.S.R. In preparation for the XIIth International Management Congress, to be held for a week beginning February 22, 1960, in Sydney, Australia, and for the succeeding week in Melbourne, CIPM is planning to recruit and organize a delegation of U.S. management representatives, for whom a special conference will be arranged en route to Australia. ■

Jane Dustan
CIPM Editor

Wanted—A Science Of Management Organization

by Louis A. Allen

President, Louis A. Allen Associates
Palo Alto, California

MUCH organization theory and practice today is rooted in the nineteenth century. The postulates and aphorisms commonly heard are those developed for the economy and practices of half a century and more ago. Just as business has outgrown the twelve hour day and the buggy-wagon salesman, it has also gone far beyond organizational forms based on functional management, staff direction and exclusive reliance upon personal supervision.

There are several reasons why need has emerged for change and clarification in our methods and techniques of planning the company organization structure. For one, the nature of business ownership is changing. Entrepreneurship is becoming rarer among the larger corporations. Time and the needs of maturing economy have taken their toll. This change in leadership has resulted in need for different methods of management and organization.

The entrepreneural leadership common during the earlier part of the century was largely supervisory. It depended upon personal direction of the man at the top. Entrepreneurship was characteristically strongly centralized and functional.

It was organized as a direct projection of the personality, the genius—and the weaknesses—of its president. This is as true of Ford Motor Company under Henry Ford as of Du Pont under Henry Du Pont, of Johns-Manville under T. F. Manville and General Motors under William C. Durant. Fifty years and less ago it was not at all uncommon to find the chief executive of a multimillion dollar enterprise making all the decisions himself. Characteristically, this type of manager needed an organization that would enable him to exercise personal command of operating matters, supervise a plethora of subordinates and get what he wanted done by personal contact with the people who were doing the work.

THE NEW MANAGER

Executives in the modern business enterprise are confronted with greatly complicated and more difficult problems in both administrative and technical processes. Skills and abilities of even the most outstanding individual are rarely equal to the full burden of the chief executive position in a modern corporation. The top man is no longer a personality who creates and rules in terms of himself. His most marked characteristic is his ability to *manage* rather than operate. He builds strong subordinates and functions as both member and leader of the top management team. Some of the flamboyance and aggressiveness of the entrepreneur are gone. Vanishing also is need for the simple and direct organizational forms which served as a vehicle for the leader of omniscience and towering strength.

The key to organizational needs of the modern business is the way the professional manager looks upon his work. He concerns himself primarily with establishing over-all goals for each of the major facets of the business and in developing an organization that will enable him to hold his key officers accountable for reaching those goals. He sees to it that there are rewards in proportion to performance measured in profit and loss. He identifies the critical, continuing problem areas of the business — inventory, pricing, credit, management devel-

MR. ALLEN is well known in the fields of management and organization. He was formerly Consultant to the Staff and Director of Organization Planning for Booz, Allen & Hamilton. The 3-year study of management and organization that he conducted for the National Industrial Conference Board is regarded as the most comprehensive ever undertaken. Mr. Allen has held management positions with Koppers Company, Inc., and with the Aluminum Company of America. He was awarded the Legion of Merit for his development of staff programs for the U. S. Air Force. He has also served as visiting professor at the University of Chicago and New York University. Mr. Allen speaks and writes widely on management topics, and is author of *Management and Organization*, published by McGraw-Hill.

opment, and so forth—and makes standing decisions that will guide his staff without continual referral to himself. He sees to it that a climate is created within the company which encourages employee participation in decisions, that people know what is going on, and that each individual is given reason to believe that the company regards him as an important person, both as a human being and as a member of the corporate team.

The professional top manager devotes a share of his personal time to appraising the work of his subordinate officers, to counseling and coaching them in their efforts to improve performance. He establishes a control system that will report the data he requires to evaluate the progress of the company and each of its component members and enable him to take corrective action as soon as discrepancies in performance are identified.

In brief, the profession of management today involves exercise of the separate and identifiable skills of planning, organizing, coordinating, motivating and controlling the work of other people. This kind of management requires new thinking, new skills and new techniques. And an important part of this is re-examination, re-definition and improvement of the management tool or organization.

IMPORTANCE OF ORGANIZATION

To the typical business executive, organization planning is something of a mystery. He tends to equate it with organization charts and job descriptions and to assign it to a subordinate who is not too busy with more important things. This attitude is understandable, but it overlooks the critical importance of sound organization to the continuity and success of the enterprise.

The organization structure is the framework within which the company grows. If it is inadequate to the long-term needs of the enterprise, failure will inevitably be reflected in the balance sheet. One company, expert and profitable in manufacturing engine components, overlooks the need for organizational homogeneity and turns to garden furniture and caskets, woodworking and dairy machinery and almost goes to the wall before it abandons its adventure and returns to the business it knows. Another company fails to organize properly for its expanding markets and drops over $10 million as an immediate result. A food manufacturer branches into household appliances and finds the varying requirements of the two dissimilar products beyond the capacity of its organization. Such examples occur almost daily. And undoubtedly there will be a plenitude of additional case material as other mergers between incompatible organizations crack and break apart with the first blast of economic bad weather.

Technological Influences—Continuing pressure for growth and expansion is not the only factor that lends importance to sound organization. New technological developments increasingly influence the need for different and more adequate organization structures. Increasing use of automatic controls and data processing will have a pervasive impact. The high cost of installing, operating and maintaining such equipment, plus the scarcity of technical skills, calls for concentration in one physical location. To some this means a reversal of the trend toward decentralization, with renewed emphasis on organization forms suitable to centralized operation. This assumption is based on confusion of decentralization with organization types. Electronic data processing and automatic controls, properly installed, promise to bring the divisionalized and decentralized organization to hitherto unequaled standards of comprehensive planning, coordination and control.

Human Use of Human Beings — The needs of human beings profoundly affect our concepts of organization, which has long been considered a problem of how to arrange work most efficiently, with subsequent adaptation of the human being to the work being done. This mechanistic concept stems from the early findings of scientific management, which demonstrated that startling improvements of productivity could be obtained through analysis and rearrangement of the work being performed and specialization of people doing the work. Unwavering emphasis upon specialization, however, has given rise to problems almost as great as those which it helped overcome. On the assembly line extreme specialization has led to monotony, boredom and frustration, with accompanying psychological unbalance and distress.

In management ranks, over-specialization has brought about a deficiency of managers who have the breadth of knowledge and experience necessary to run a whole department or division of the company itself. The frantic concentration upon management development programs during the past few years is one indication of the effort companies are making to extricate their managers from the ruts into which they have worked themselves.

Countermeasures in the interests of human use of human beings have had significant results. One company reorganizes its production lines so that people can work in teams, instead of as robots. The improvement in morale and productivity is measurable and immediate. Another company changes its basic organization structure so that a large sales department is broken into small cohesive groups. Product sales spurt immediately. In still another instance, a company reorganizes so that it can break up its mammoth drafting rooms in which hundreds upon hundreds of draftsmen perform in maddening anonymity into small units, each with its own identity and goals. The drop in turnover and increase in drawings per man hour is perceptible at once.

Example after example proves that the organization structure has an important influence on company success, in all its facets. The organization can facilitate or discourage diversification, decentralization, motivation, market penetration, production efficiency and the process of management itself.

"Much of our technology is only empiricism. We know an automobile engine works, but we don't know why. We go along by trial and error, turning out enormous quantities of goods without understanding the basic principles involved."

A DELUGE OF HONORS FOR AN EXASPERATING ADMIRAL

by Robert Wallace • LIFE Magazine, Sept. 8, 1958 (p. 113)

PROBLEMS

What obstacles lie in the path of improving and refining our current concepts of organization? Why has the theory of organization not kept pace with the needs of management? The answer is that the art and science of organization planning in American industry today is in a state of confusion. Disagreement is rife in both concept and terminology. Viewpoints with respect to such fundamental points as the basic forms of organization, decentralization and staff and line are as widely separated as Toronto and Timbuktu.

Semantics — Consider the basic ques-

tion of organization forms. Manifestly it is difficult to organize if we do not know the basic building blocks available to us. If we shop around among the textbooks and authorities, we can discover that there are line, staff and line-and-staff type organizations. There are also committee and decentralized types. However, if we study a sample of companies of any size we find that all are both line and staff, all have committees and all are decentralized to some extent. These classifications are as useful as trying to differentiate a Pacific-type locomotive by saying it has wheels.

The concept of decentralization appears in many guises. Some companies say they have "decentralized" when they build plants in Texas, California and Indiana. Others cite their decentralization when actually they have divisionalized and are as highly centralized as they have ever been. To further complicate the picture, we find mention of physical and administrative decentralization; also geographic, management and product.

STAFF AND LINE enter into this verbal hide and seek. The "line" is identified by some authorities as the production, sales and finance functions. In a great many companies, however, production and sales are staff; finance almost invariably is. Functional, service and auxiliary departments are described, each with characteristics that separate it from both line and staff. All three terms are improvisations; none differs essentially from staff except in the usurpation of "line" authority, which assumption inevitably results in friction and antagonism. Again "general staff" and "assistants to" are regarded as special *types* of organization elements. Actually, they are blood kin to other members of the "staff" family and should be so regarded.

There is more. Such terms as responsibility, authority and accountability, which are basic semantic tools in dealing with organization, have widely varying definitions and interpretations.

The concept of "responsibility" is a case in point. One expert says that responsibility is the *obligation to perform*. Another states that responsibility is *accountability*. A third specialist defines responsibility as the *duties of a position*. To add to the tangle of this semantic jungle, one of these writers says that responsibility can be delegated. Another asserts, quite as positively, that responsibility cannot be delegated.

The S.A.M in a Changing World

by Frederick J. Gaudet, Ph. D.
Director of Psychological Studies
Stevens Institute of Technology
Hoboken, N. J.

ONE OF THE MOST widely discussed management principles is *workers' resistance to change.* So much emphasis is laid upon it, in management development programs and elsewhere, that we sometimes lose sight of another truth: resistance to change is not limited to workers. Just as hourly employees are threatened by, or afraid of, trying new ways of doing things, so do we find top management feeling much more secure in the old accustomed ways. And just as hourly employees come up with all the standard excuses and rationalizations for not changing, so does top management—except that top management has a special excuse all its own: "But *our* company is different!"

It is the minority of these top executives who are in this class, of course. Certainly those who are identified with and participate in the leadership of S.A.M are flexible personalities who not only welcome change but are frequently instrumental in bringing it about.

But if I were asked what I feel is S.A.M's greatest contribution to industry today I would think immediately of the service it offers to the younger men who are now in supervisory and middle-management positions. These are the men who do the major portion of the work within the Society, who make up and head the committees, who do the planning, attend the meetings and read the publications. It is among these men that we will find our top management men of tomorrow. We cannot pick them out now, of course, because we do not yet know what goes into the making of a successful executive. We *do* know, however, what factors prevent many promising young men from going to the top or cause them to fail when given the opportunity to advance. One of the most important of these factors is narrowness of interest and knowledge.

When we have a narrow-minded, narrowly-educated man we have a man who is most apt to fear the new and the unknown—who is going to resist change, in other words.

Now S.A.M does not purport to broaden interests and knowledge as a stated objective. S.A.M does offer programs, though, which are varied in content and point of view at the local, regional and national levels. Perhaps even more important, its local meetings allow future top executives to meet, to know, and to discuss problems with their counterparts in other firms. Again, S.A.M offers invaluable opportunities for younger men to develop leadership skills. I am thinking particularly of the kind of leadership skill that enables a man to get others to do things through positive leadership rather than through the authority of his position.

We know that management development can only take place by changes occurring in three areas: knowledge, attitudes and skills. Thus S.A.M, through its lectures, its face-to-face contacts with fellow members and its opportunities to serve on committees and as officers, offers chances of growth in all of these areas.

There is only one thing wrong with this S.A.M program: It is run cafeteria style. It is there for you if you want it. No one will serve it to you from a bright silver spoon. But I question whether S.A.M is interested, anyway, in someone who is still at this stage of infancy. And very few companies, I am sure, will rush to tap him as their future president. ■

Similar vagaries are found in concepts of authority and accountability. You can ascertain that authority is the right to make decisions and to command a subordinate. Accountability is the obligation to perform, the obligation to a superior, and it is responsibility. Authority can be delegated and it cannot be delegated depending upon your references.

These differences and contradictions are, perhaps, to be expected in a new and rapidly changing administrative activity. This is no criticism of their accuracy. It is simply a comment upon their inadequacy for the manager who is trying to learn how to organize more effectively. If we are to construct a valid science of organization, we must arrive at some common agreement on semantics. We need to clarify organizational concepts. Two of the most important questions refer to the types of organization structure and decentralization.

FORMS OF ORGANIZATION

The executive who has top management responsibility for organization planning need concern himself with only two basic forms of organization structure — functional and divisionalized. Since practically every company, in its early years, has a functional structure, the decision to reorganize is almost always that of *when* a change should be made to a divisionalized type structure.

If divisionalization is indicated, choice can then be made between product and geographic groupings.

Functional Organization Structure — This is the building block of organization. It is the module from which other forms are built. The functional type structure is formed by grouping all the work to be done into major functional departments or divisions; that is, all related work of one kind is placed in one organization component under one top coordinating head. For example, one manufacturing division would be responsible and accountable for all manufacturing done throughout the company —in all plants and for all product lines. The same would hold for marketing, engineering and other functions.

Divisionalization—This is an organizational device for retaining the advantages of the small, functional type of organization while minimizing the disadvantages which come with increasing size, diversity, and dispersion. Divisionalization is the process of breaking the functional structure into small, relatively autonomous administrative units. Ultimately, the aim is to make each division capable of competing independently with its own products in its own markets. Divisionalization may proceed either in terms of product or geography.

Product Divisionalization — This involves breaking out each major product and providing it with the functional groupings it needs to operate as an integrated unit within the framework of the company as a whole. Product divisionalization brings to focus on the product itself the total resources of one complete administrative unit. Manufacturing, sales, engineering, finance and personnel are dedicated to the interests of one or a few related products. This brings increased emphasis on product development, market exploitation, engineering improvement and so forth.

PRODUCT divisionalization is a means of making each individual product of the large company competitive with the limited product lines of small or specialized competitors. It establishes at the periphery of the large business a series of small, self-sufficient functional units which can tap the combined resources of the corporation through its headquarters and staff and yet can compete on an equal footing with the flexible, dynamic smaller organization. This form of organization facilitates growth and diversification because products can be added without distorting the basic structure by formation of additional product divisions.

Geographic Divisionalization — The needs of the market dictate choice of a geographic form of divisionalized structure. Here the company is subdivided into regional units, each of which is relatively self-sufficient in sales, manufacturing, engineering, personnel, finance and so forth. Geographic divisionalization caters to the needs of particular markets. It makes possible fastest service, specialized attention, recognition of local needs and traditions. It offers economies in shipping costs. Because geographic divisionalization requires separate plants, sales forces and staff facilities for each geographic area, it is most expensive. More capital is required to build plants and facilities; the expense of sales force and administration is greater. The geographic form of corporate structure is most suited to the large company with a simple, easily duplicated product or service which can best be sold by primary emphasis upon the special needs of regional markets.

HYBRID ORGANIZATIONS

Most company organizations are hybrids, sometimes including all three types of basic structure. This is particularly the case when the company is reorganizing from a functional to a divisionalized type structure. This move is best effected by means of a series of interim organization changes that will carry the company from its current structure to the ultimate plan. Phase steps are designed to enable the company to make most effective use of the skills and abilities available in its employee and management group.

Such a systematic approach to reorganization provides opportunity to test the divisionalized form in a pilot division and to anticipate and overcome resistance to organization change on the part of the people involved.

DECENTRALIZATION

Decentralization is the systematic and consistent delegation of authority to the point at which responsibility is performed. The extent of decentralization is determined by what authorities are delegated and how far down in the organization they are delegated. In one centralized company, the sales manager of a district, for example, must get permission from headquarters to fire or promote an employee. He cannot approve purchase commitments or purchase expensed equipment. In a decentralized company, we find, typically, that he has these authorities, within limitations of his budget and company policy. He can also authorize paid overtime, approve travel expense, and approve price quotations within established limits.

Decentralization is not a separate and identifiable form of organization structure. It can take place within any type of organization. Decentralization does not automatically accompany divisionalization. However, because the extent of decentralization is limited by the availability of effective controls, it is facilitated by those types of structure which lend themselves most readily to profit and loss accountability* While optional in a functional structure, decentralization is mandatory if operating divisions are to function as self-sufficient, aggressive entities in a competitive market.

DECENTRALIZATION is always a relative matter. Every company must decentralize to some extent if there is to be any latitude or initiative in the work done at the point of action. Complete centralization would lead to administrative strangulation. At the same time, decentralization, if allowed to go too far, will result in chaos.

The operating divisions of companies which divisionalize most successfully are highly decentralized. Experience shows that authority for making decisions having to do with the internal operation of the individual divisions should be delegated to the division. However, no matter to what extent division management is permitted autonomy in operating decisions, the central company management must retain responsibility and authority for the establishment of over-all objectives and policies, development of the company organization structure, and review and approval of the general programs and budgets formulated by the operating units to reach their objectives. Coordination of the activities of the various divisions and departments, and over-all control of company activities must also be centralized.

Further study and analysis of the major aspects of organization planning are necessary. Since organization is, in a very real sense, both the framework and vehicle for the administrative process, it is obvious that every contribution to better understanding will assist in bringing management to full professional stature. ■

* *Accountability is the obligation to carry out responsibility and exercise authority in terms of established performance standards.*

Time To Take . . . A Broader Look At Manufacturing Management

It's popular these days to talk about "revolutions" that are taking place in manufacturing. Mostly they're not revolutions at all, but the result of many gradual changes that have suddenly come to everybody's attention in some dramatic way.

FACTORY's editors think they've come upon a very good example of this kind of revolution in the past two or three years. It actually has been going on for quite a time, but is now shaping up pretty fast as an important part of the "new look" or the "modern look" in plant operation.

What we have in mind is the broader approach that many operating executives now take to their job responsibilities. It wasn't so long ago that the operating man commonly told you that his job started with the receiving room door, ended with the shipping room door. What happened before receiving and after shipping seemed largely of academic interest.

Not so today. First let's take a quick look at what has happened behind the receiving room door:

. . . It's not at all uncommon to find a company now carrying its quality control program right into the vendor's plant. Where the vendors are big suppliers, there is now more often than not a resident inspector for the purchasing company right on the premises—reminiscent of wartime days when government inspectors operated full time in most plants. Some of the bigger manufacturers today have their industrial engineering departments work with vendors to improve methods and cut costs. In turn, some vendors today actually ask for such help (and more will in time).

. . . Materials handling has become such an important factor that it's not unusual to find a manufacturer working out special arrangements with a vendor. Can the vendor use a certain type of pallet or special container for unit loading of products? If so, the purchaser can put the pallet or container right into its production flow on a planned basis. Can the vendor put a certain major component into a certain size and type of package? If so, the purchaser can use the same package for transport and storage of the finished product.

Now let's take a look at the other end—the world beyond the shipping room door. This world has been influenced in a big way by the growing concept of "integrated flow" in manufacturing. The very fact that you often find the final inspection process merging right into the first stages of packaging makes it increasingly hard to decide where "manufacturing" stops and something else begins. The result has been a steadily increasing involvement of operating men in the fields of packaging, shipping, distribution and warehousing.

Another factor that has entered the picture is also important. There is a strong feeling in many plants that there's big money lurking in these so-called "final" operations. As it becomes harder to make easy cost savings in the traditional manufacturing process (because all the easy cream has long since been skimmed off), cost-conscious manufacturing people are naturally turning their skills toward richer areas.

Take distribution and warehousing as an example:

. . . Proper design of shipping containers can make an enormous difference in the cost of shipping the product, and also in the handling of the same products during part or all of the normal manufacturing cycle. With the enthusiastic help of container manufacturing and packaging engineers, plant industrial engineers and materials-handling specialists have come up with remarkable improvements.

. . . More efficient methods of loading and unloading carriers have paid off handsomely.

. . . Our growing skill in controlling production schedules and inventories is helping to set the stage for wider use of full-loaded common carriers—more economical than part-loaded.

. . . Mechanized data processing, now increasingly used for manufacturing cost analysis, is paying off in some cases in showing the most economical combinations of transport.

. . . Consolidation of warehousing facilities is another area where plant operating know-how pays off. Many times the same industrial engineering and manufacturing engineering techniques that pay off in plant inventory storage add up to big savings in the distant warehouse.

From where we sit, there's no revolution in all this. Maybe not even excitement. But we think it's a pretty sound picture of something that's sort of a sign of the times. And we think that the operating man who opens up his eyes to the *total* manufacturing picture, including far more than the physical plant itself, is the man who will be doing the best job long-term for himself and his company.

Matthew J. Murphy
Editor, FACTORY
McGraw-Hill Company

S. A. M *Newsletter*

Current news of interest to all S.A.M Members, specifically for the 900 Chapter and National Officers of the Society.

HAROLD R. BIXLER
Executive Vice President

THE RESULTS APPROACH TO ORGANIZATION—As another of its series of Modern Management Treatises, a new S.A.M publication has been announced by the Research and Development Division. The author is Mr. **Edward C. Schleh,** member of the TWIN CITY S.A.M Chapter, and president of his own management consulting firm in Minneapolis. In the foreword for this publication **Eugene J. Benge** writes: "An old adage says, 'Every pancake has two sides.' "

In this pithy monograph the author searches out the other side of some commonly accepted viewpoints on management authority and responsibility. He accents accountability for results rather than exercise of activities. In this light he examines line versus staff; considers the problem of work-improvement at all levels on the basis of "balanced" and "blended" effort; and proposes a principle of "results optimity" in reference to over-success of one activity at the expense of other activities in the total enterprise. Additional concepts (some unconventional) of value to executives are presented.

By stressing the importance of results clearly delineated and adequately measured, Edward Schleh has reiterated a point of view which management can all too easily forget. Any executive who feels complacent about his own job, or his organization, will do well to ponder the stimulating viewpoint here presented.

Copies are available through S.A.M Research Director **Vincent Flynn.**

S.A.M NATIONAL AWARDS—All members are cordially invited to submit their nominations for the 1959 S.A.M National Awards through their respective chapters. Each chapter has now received Standard Data Sheets for the following Awards: Gilbreth Medal, Industrial Incentives Award, and Material Handling Award; presentations to be made at the S.A.M Annual Spring Conference in April 1959, deadline for nominations March 15th. Also, the Taylor Key and Human Relations Awards, to be presented at the S.A.M Annual Fall Conference next October, with deadline for nominations June 1st, 1959. In addition, the various special awards to chapters will be presented at the 1959 Annual Fall Conference, as provided for in the Chapter Performance Awards Plan. Plans are now being formulated for Professional Manager Citations and Middle Manager Awards, under the guidance of S.A.M National Secretary Hugo W. Druehl.

MANAGEMENT POSITIONS AVAILABLE — S.A.M members are invited by the following organizations to consider various openings for which they are now receiving applications: FEDERAL AVIATION AGENCY: positions of Assistant Administrator for Management Services and Assistant Administrator for Personnel and Training. Salaries ranging up to $19,500. Write **Mr. E. R. Quesada,** Special Assistant to the President, The White House, Washington, **D. C. . . . U. S. CIVIL SERVICE COMMISSION:** positions in Grade GS-12, with U. S. Government Agencies in New Jersey and New York, involving various administrative and management activities. Apply **Mr. George P. Hodges,** Chief, Examining Division, Second U. S. Civil Service Region, Federal Bldg., Christopher St., New York 14 . . . UNITED NATIONS TECHNICAL ASSISTANCE PROGRAMME: many positions available in foreign countries in the fields of Economic Surveys, Industrial Development and Productivity, Natural Resources Development and Power, Public Finance, Statistics, Transport and Communications, Housing, Physical Planning and Building, Social Services, and Public Administration. Apply: Technical Assistance Recruitment Services, United Nations, New York 17.

NATIONAL OFFICE MAILINGS — All 900 chapter and national officers are reminded to check their particular interests in the following combined mailings sent Chapter Presidents and National Directors since the last listings. Please broadcast the particular information they contain in line with their specific purposes: Minutes of Executive Committee Meetings, November 1st; call for Nominations for S.A.M 1959 National Awards; weekly mailings on special membership campaign "Operation Skyrocket" for the period November 1st to December 15th; Professional Manager Citation Plan; Chicago Pilot Plan for Professional Manager Grades; call for nominations for National Officers for the fiscal year 1959-60; Quarterly Research Bulletin; monthly membership reports by grades and chapters, and Chapter Performance Awards Plan Standings.

GOETTELMAN NOW HOSPITAL CONSULTANT—**George M. Goettelman,** former S.A.M National Vice President of Civic Affairs, has joined the Philadelphia management consulting firm of Mayer, Dibrell & Company, Inc., as Director of Hospital Management. An outstanding National figure in this field, Mr. Goetelman has served as Executive Director of Industry's Advisory Board for Hospitals in the Raritan Valley area of New Jersey. He will spearhead Mayer and Dibrell's application of modern management methods for hospitals and other institutions whose existence has been threatened by current economic and administrative problems. Mr. Gottelman was formerly associated with Johnson & Johnson, New Brunswick, N. J. The S.A.M National Civic Affairs Program is now being conducted under the leadership of **James E. Newsome,** 2nd Vice President, assisted by a Civic Affairs Committee representing the S.A.M Chapters active in this work.

CHAPTER CHIPS—Typical new chapter publications well worth writing for include the following: CINCINNATI—Official Yearbook for 1958-59, including Program Committees, Organization and Membership Roster. Write Paul W. Christensen, Jr.; **WESTERN NORTH CAROLINA CHAPTER—Program and Roster, including History, Purposes, Membership. Write** Theodore G. Ford; **WASHINGTON—Annual Conference on "Management In The Scientific Age". Write** Karney Brasfield; **KANSAS CITY —2nd Annual Midwest Work Course On Materials Handling Analysis in cooperation with the University of Kansas. Write** Richard Muther; **NORTHERN NEW JERSEY—excellent example of Chapter Organization and Operations Manual, a splendid guide for chapters large and small. Write** Albert J. Klaus; **POUGHKEEPSIE—Institute of Business Administration, co-sponsored with the Arlington Adult Education Program, two courses on Principles of Management and Principles of Supervision. Write** Donald B. Miller; **S.A.M NAMES IN THE NEWS—**John W. Coughlan, **WASHINGTON CHAPTER, has published "What The Businessman Should Know About Regulations Of Public Utilities". In this connection S.A.M Student Chapter at the AMERICAN UNIVERSITY is sponsoring a series of lectures. Write** Stanley I. Posner, **Professor of Business Administration;** Eugene J. Benge, **W. NORTH CAROLINA CHAPTER, has produced a most interesting booklet entitled "What A Salesman Should Know About Motivating The Prospect". Printed by Dartnell Press, 4660 Ravenswood Avenue, Chicago, 40, which includes this quote: "A famous psychologist tells how to use modern scientific methods both to size up prospects and to close more sales".** Stewart Thompson, **LONDON DISTRICT, ONTARIO, CHAPTER is author of "The Case For Company Creeds", recently published by the American Management Association. Copies available from him at Real Silk Hosiery Mills, or Management Research Associates, London, Ontario, Canada;** Leslie Priestman, **former S.A.M Vice President for the NORTHEASTERN REGION, sends his greetings from South Iran, where he has been for the year with the Iranian Oil Refining Company. He is working with a group called Management Analysis, which is responsible for organization, development of industrial engineering, and assisting top management in developing and implementing some of its important plans and procedures. Any member considering foreign assignment would find it interesting to get in touch with Les. He has available a pamphlet explaining the operations of the Iranian Oil Refining Company, which employs some 30,000 people in that part of the world. Write him care of the company at Abadan, South Iran.**

SELECTED REFERENCES—Publications recently recommended by S.A.M's Functional Vice President and other officers for member attention include the following: U. S. MONETARY POLICY, available through **Peter C. Grenquist,** Secretary, The American Assembly, Columbia University, New York 27. This symposium of original papers considers the objectives, the tools and the processes of regulation of the supply of money and credit, focusing on the discretionary actions of the U. S. Treasury and the Federal Reserve System. ∎

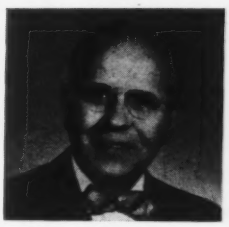
1959 Calendar of
NATIONAL & REGIONAL EVENTS

January 20—New York City
Cost Reduction Workshop
January 25-30—San Francisco
S.A.M-NTL Workshop on Leadership Skills
February 3—New York City
Workshop on Development of Executive Leadership Skills
February 6—Atlanta
Southern & Southeastern Regional Meeting
February 6—Atlanta
National Nominations Committee
February 7—Atlanta
National Executive Committee
March 10—New York City
Work Sampling Training Clinic
March 15-20—Milwaukee
S.A.M-NTL Workshop on Leadership Skills
April 7—New York City
Simulation Workshop — A New Management Tool
April 23-24—New York City
Annual Spring Conference—Management Engineering
April 25—New York City
National Directors Meeting
June 20—Washington or Philadelphia
National Executive Committee

University Division Observations

by Professor Harold Fischer

Vice President,
University Chapter Division



ON NOVEMBER 13, 1958, Mrs. Fischer and I had the privilege of chartering the 140th University Chapter at *St. Norbert College*, West De Pere, Wisconsin, with 118 charter members. This is the third largest University Chapter to be chartered and reflects the degree to which both educators and business men are recognizing increasing mutualities of purposes and responsibilities.

This progressive liberal arts college, with its community-minded faculty and administration, and the *Fox Valley Chapter* of S.A.M, led by *Lloyd Swaim*, its dynamic President, are both cognizant of their opportunity of working closely together in the advancement of management and of management people, to the benefit of education, business and the community.

Father D. M. Burke, the genial President of St. Norbert College, had these words to say concerning the new S.A.M chapter:

"As a liberal arts college, St. Norbert College stands for a definite emphasis on the fine arts and the education of the whole man. In spite of this emphasis, I feel that we are well within the range of our educational program when we offer specialized training in certain fields. An example is the excellent Business Administration course we have in the college. We feel that our affiliation with S.A.M will greatly enhance these programs and we are well pleased that so many of the students expressed an interest and joined S.A.M."

Father Burke, Father R. K. Finnegan, and their associates; *R. A. Nacker*, President, and the other student officers; *Lloyd Swaim, John Smith, Roy Bartz* and members of the Fox Valley Chapter merit our enthusiastic commendation and we pay tribute to them for a job very well done.

Many business leaders of the Green Bay region and *Wes Keuther*, Regional Vice President S.A.M, were also present.

On the way East, we stopped off at *Milwaukee* where we dined at the Milwaukee Athletic Club with officers of the *University of Wisconsin's Madison and Milwaukee Chapters*, along with *Percy Ekholm*, President of the *Milwaukee Chapter*, and *John Imhof*, Student Coordinator.

In the conference at the *Milwaukee Center of the University of Wisconsin*, plans for the coming year were discussed in considerable detail. Here again we see what can be done when men of ability, with a worthwhile goal, under effective leadership, get together to do a job.

Just a year ago the *Madison Chapter of the University of Wisconsin* was in financial difficulty. The President, *Dave Bunda*, then said: "A management group should be able to manage its own affairs and we hope to do just that." Well, they certainly did and today their treasury is in a very healthy condition, their program for the year is outstanding, and their membership has passed the 100 mark, the result of good planning and effective administration. Congratulations!

While the *University of Wisconsin Chapter in Milwaukee* was organized just last Spring, already they have gone far in the development of their organization and in the planning of activities and services that will be of maximum benefit to their members during the year. This development is a reflection of the fine collaboration between *Percy Ekholm*, President, and *John Imhof*, Student Coordinator, of the *Milwaukee Chapter* and *Professor A. John Lindemann*, faculty advisor, and *Raymond Kowalske*, the President and his student officers. We expect great things from this chapter.

The *Philadelphia Chapter* lights the way for community cooperation and the promotion of management education through outstanding support of *nine* University Chapters, the greatest number for any Senior Chapter. A new University Chapter division of the Chapter, under the effective direction of *Robert F. Roundy*, has been doing a great job in providing guidance, inspiration and help.

During the Fall, Mrs. *Fischer* and I had the opportunity to sit down with *Bob Roundy* and the Presidents and Faculty Advisors of University Chapters in Philadelphia —Professors *Arthur B. Melbourne, Walter B. Murphy, Samuel T. Wilson, Walter H. Klein* and Student Officers *Richard A. Rehberg, Vincent Romano, Ralph Krowlikowski, Douglas Lamont, Joseph Miratello, Vincent F. Martino, Harold Lawson* and *James Marley*.

Each president outlined his chapter's program for the year and it was a thrill to listen to their well-organized plans. The Society can be proud of these students of management. In addition, these men started plans for their annual high-level Spring Management Conference which is to be held at *Villanova University* on March 12. "Science of Management" is to be the theme and outstanding management leaders will participate.

As a result of the cooperation between the *Philadelphia Chapter, Bob Roundy* and his committee, the faculty advisors and student officers, we shall see a continued forward movement of the chapters of S.A.M at *Drexel Institute of Technology, LaSalle College Day and Evening Divisions, Pennsylvania Military College, St. Joseph's College, Temple University Day and Evening Divisions*, the *University of Pennsylvania*, and *Villanova University*.

In addition, the *Philadelphia Chapter* is actively working on the organization of University Chapters in the *Evening Divisions of St. Joseph College* and *Drexel Institute, Rutgers University-Camden Center*, and the *Pennsylvania State University-Ogontz Campus*. Business, education, and the community have and will continue to benefit by this cooperative undertaking. We salute the leaders for this outstanding movement.

The *Cleveland Chapter* likewise is recognizing the opportunity in the University Division through more active support of its program, thanks to Fred Harrell, National Treasurer; *Joe Shaffer*, President; and *Dr. J. N. Berrettoni*, the new Vice President in charge of student activities, and his committee.

As a result of this collaboration, a new chapter at *Kent State University* was organized in November, with *Professor Raymond J. Ziegler* as faculty advisor. Professor Ziegler did a tremendous job at *Washington State College* last year in setting up their organization and we already see the results of his efforts in this new chapter at Kent State. *Ron Davis*, the Secretary, writes: "We expect 100% to 200% increase in membership next quarter." That is real progress—congratulations!

Western Reserve University and the *University of Akron* are expected to join our family of University Chapters in the near future. *Bowling Green State University, Case Institute of Technology*, and *Fenn College* also enjoy the support of the fine Cleveland Chapter. Everybody benefits.

Participants in the charter presentation to the **St. Norbert College Chapter:** Seated left to right: Mrs. Harold Fischer, Mr. Lloyd Swaim, Professor Harold Fischer, Father Robert K. Finnegan, Mrs. Lloyd Swaim, Robert A. Nackers (student President), and Professor Robert J. Zeltan.

We welcome into our ever growing University Division a new chapter at the *Rochester Institute of Technology*, Rochester, New York. Through the fine work of *Louis J. Damico*, the student President, and his officers and with the support of *Professor Stanford Phelps*, faculty advisor, this new chapter was brought into being. It was a privilege for us to work with these good people in this worthy undertaking. Already indications point to a very active chapter and we expect them to establish a fine record this year.

In New York City, with the support of *Dr. John Beishline* and *Dr. William Berliner* and under the effective leadership of *Harry Gudenberg*, the President, and his student officers, a new chapter was organized for the *Evening Division* of the *New York University School of Commerce, Accounts and Finance*. It is a pleasure to welcome *Professor Charles Wrege* into our select group of faculty advisors. This chapter has embarked on a comprehensive plan of activities and the Society is proud to have this splendid group added to the imposing list of University Chapters from coast to coast and in Puerto Rico and Canada. ■

National President Phil Carroll congratulating the President of the **University of Wisconsin-Madison Chapter** on their membership growth. Left to right: Mr. George W. Talley, Mr. Don Zielesch (student President), Mr. Robert Stolz, President Phil Carroll, Dr. George Sievers, and Professor Harold Kubly, Faculty Advisor.

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S.A.M–N.T.L Workshop In Leadership Development

THE S.A.M San Francisco Chapter will host the third in a series S.A.M—N.T.L Workshops In Leadership Development in a 5-day meeting January 25-30, in Palo Alto, California.

Workshops, previously held in Cincinnati, Ohio, and Asheville, N.C., differs considerably from the usual management development conference. It uses the "laboratory method of training" which stresses the technique of giving participants a chance to learn more about themselves and to practice leadership skills in an environment which simulates on-the-job conditions. The Workshop consits of three main parts:

(1) A leadership Laboratory where groups of 15 under the guidance of a staff trainer study various behavior problems within the group for the purpose of increasing their understanding of group relations, improving skills of leadership, developing greater insight, and acquiring a better understanding of the behavior of others.

(2) Skill practice groups, where individuals have an opportunity to work on job cases and to analyze human relations problems through demonstrations.

(3) Information sessions, where the staff, through informational lectures, explain some of the things happening in the Laboratory group sessions and also bring up-to-date information on findings in the field of social science research.

Registration fee, including tuition and all Workshop materials, is $200. room and meals are extra. To register, or to obtain more information, write to the San Francisco Chapter's President: Kenneth D. McCloskey, East Bay Municipal Utility District, 2130 Adeline Street, Oakland 22, California.

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VI — FRED E. HARRELL

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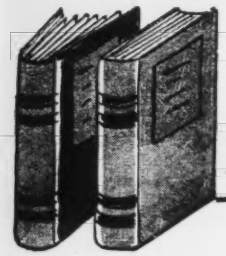
MR. Harrell has been General Manager of the Curtiss-Wright Corporation's Marquette Division since February 1955. From 1945-54 he was Vice President of the Reliance Electrical and Engineering Company, a company that he joined in 1924 as Sales Engineer, then progressed through Assistant Chief Engineer and Chief Engineer before becoming a Vice President. Mr. Harrell is a member of the S.A.M Cleveland Chapter, and has served five years as a member of its Board of Directors. He also served for two years as National Director, and is currently National Treasurer of the Society. He has also served as Vice President for the S.A.M Central Region.



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GENERAL MANAGEMENT THEORY AND PRACTICE

A-45 THE FUNDAMENTALS OF TOP MANAGEMENT by **Ralph C. Davis.** 825 pp. Harper. 1958. $8.25.
An outstanding summary of the best modern knowledge of business, presented in terms of a consistent philosophy of management. The book is designed both for present top management and for middle and junior managers who aspire to eventual top management positions. The broad subjects covered include basic management problems, standardization in business, business planning, business objectives, executive leadership, business policies, various aspects of organization planning and the essentials of operations control.

A-46 SUCCESS AND FAILURE IN SMALL MANUFACTURING by **Archibald M. Woodruff** and **Thanis D. Alexander.** 135 pp. U. of Pittsburgh. 1958. $3.50.
A study of twenty small manufacturing concerns and the factors which have determined their success or failure. Ten of the companies studied were generally successful and ten unsuccessful. The influence of internal management, technological changes and adjustment to them, and external competition is analyzed with conclusions that will be of general interest to anyone in a management position.

MANAGEMENT TOOLS AND TECHNIQUES

B-101 COMPANY AND COMMUNITY by **Wayne Hodges.** 304. pp. Harper. 1958. $4.50.
The first comprehensive coverage of relations between business firms and the communities in which they operate. This study was sponsored by ten New York corporations to provide guidance in this important area of industrial public relations. The book describes company practices on a case history basis in various fields from participation of company officials in community leadership to contributions to worthy causes to special problem situations like strikes.

B-101 COLOR PLANNING FOR BUSINESS AND INDUSTRY by **Howard B. Ketcham.** 288 pp. Harper. 1958. $5.95.
The first full guide to the planned use of color as a means of increasing sales appeal of industrial products; improving work effectiveness and morale in the plant or office; and otherwise contributing to business success. The author is a well-known color consultant who assisted AT&T in its recent move into color telephones and has worked with a number of other leading corporations.

B-102 LINEAR PROGRAMMING by **Saul I. Gass.** 235 pp. McGraw-Hill. 1958. $6.50.

B-103 LINEAR PROGRAMMING by **Robert O. Ferguson** and **Lauren F. Sargent.** 356 pp. McGraw-Hill. 1958. $10.00.
The appearance of these two new books in a single month reflects the increased attention being paid to this rapidly developing tool of planning and operations research. The first book stresses the general theory and mathematics of this approach and attempts to provide guidance in recognizing potential problems to which this technique is suitable. The second emphasizes the applications of this technique specifically to management problems such as developing production and sales programs and determining market potentials.

B-104 THE UNITED FRUIT COMPANY IN LATIN AMERICA by **Stacy May** and **Galo Plaza.** 278 pp. NPA. 1958. $4.50.
An interesting case study of a US company which is a dominant force in the countries in which it operates abroad. Describes the new emphasis on community relations which has marked the company's practices since World War II and the business and political benefits which have benefited from this approach.

PERSONAL DEVELOPMENT

C-32 WHAT MAKES YOU TICK by **Charles D. Rice,** ed. Harper. 1958. $3.95.
A compilation of the interesting series of self-analysis quizzes which have appeared in **This Week** magazine in recent years. Each of these tests is soundly based on psychological research and is designed to help a person analyze his own personality make-up, and his relationship to his family, his job, and the world at large.

C-33 THE NEW SPEAKER'S TREASURY OF WIT AND WISDOM by **Herbert V. Prochnow.** 473 pp. Harper. 1958. $4.95.
A new collection of stories, quotations and witty observations collected by one of the country's best known authorities on public speaking. Arranged in alphabetical form to cover all sorts of subjects from ability to zeal. An invaluable reference book for anyone who has to prepare an after dinner speech or act as a toastmaster.

C-34 WHAT DO WE KNOW ABOUT HEART ATTACKS by **John W. Gofman.** 191 pp. Putnam. 1958. $3.50.
An authoritative but easily readable guide to present knowledge about the causes, prevention and treatment of heart disease. The understanding and precautions suggested in this book could literally be the difference between life and death for many readers.

THE WIDER VIEW

D-51 WHAT WE MUST KNOW ABOUT COMMUNISM by **Harry** and **Bonaro Overstreet.** 348 pp. Norton. 1958. $3.95.
A down-to-earth report on the history, principles and practice of communism, designed to tell the average thinking American what he needs to know about this great world menace in order to understand communist maneuvers and play his own part in our national response to this threat. Clearly and effectively written and based on broad psychological knowledge as well as on intensive study of the particular subject.

D-52 THE LIVING CITY by **Frank Lloyd Wright.** Horizon. 1958. $7.50.
An expanded and completely rewritten version of a classic book on the modern city by a recognized genius in the field. Here the great architect gives his view on how we must live tomorrow if we are to survive at all. Covers our homes, our schools and the kind of urban planning we need to live full and free lives. These architectural visions are played against a deep philosophical background.

D-53 CREATIVE THINKING by **Charles S. Whiting.** 180 pp. Reinhold. 1958. $3.95.
A description and evaluation of recently developed techniques of stimulating creative thinking, including brainstorming. The book also describes the specific creative thinking programs which have been carried out by leading US corporations such as McCann-Erickson and General Motors.

S.A.M BOOK SERVICE

All books described are available for *rental* or purchase from The Advanced Management Library Service. Rental charges are $1.25 for six weeks use. Books may be purchased at discounts which are 10% for most new books and substantially higher for used copies when available. Use order form below.

D-54 CONSTRUCTION ACCOUNTING AND FINANCIAL MANAGEMENT by **William E. Coomes.** 491 pp. Dodge. 1958. $12.85.
A valuable review of ways and means of adapting standard accounting techniques to the special needs and problems of the construction industry.

D-55 HANDBOOK OF AUTOMATION, COMPUTATION AND CONTROL by **Eugene M. Grabbe** and others. Volume I. Wiley. 1958. $17.00.
The first volume in a planned new comprehensive and up-to-date professional handbook covering all theoretical and applied aspects of the rapidly developing techniques of automation. This volume covers control fundamentals.

D-56 BEHAVIOR OF INDUSTRIAL WORK GROUPS by **Leonard R. Sayles.** 190 pp. Wiley. 1958. $4.75.
A thorough study of varying types of group attitudes in a work situation. Based on intensive observation of hundreds of such groups, the book identifies four major types of attitudes—conservative, strategic, apathetic and erratic.

D-57 DICTIONARY OF PERSONNEL AND INDUSTRIAL RELATIONS by **Esther R. Bocker.** 366 pp. Philosophical. 1958. $10.00.
A complete and up-to-date listing and definition of almost 2500 terms used in the fields of labor relations, training, and other aspects of personnel work.

D-58 RAW MATERIALS by **Percy W. Bidwell.** 419 pp. Harper. 1958. $5.95.
A study of American policy on various types of industrial raw materials, especially as they affect international trade and international economic relationships. Prepared under the auspices of the Council on Foreign Relations.

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